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IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

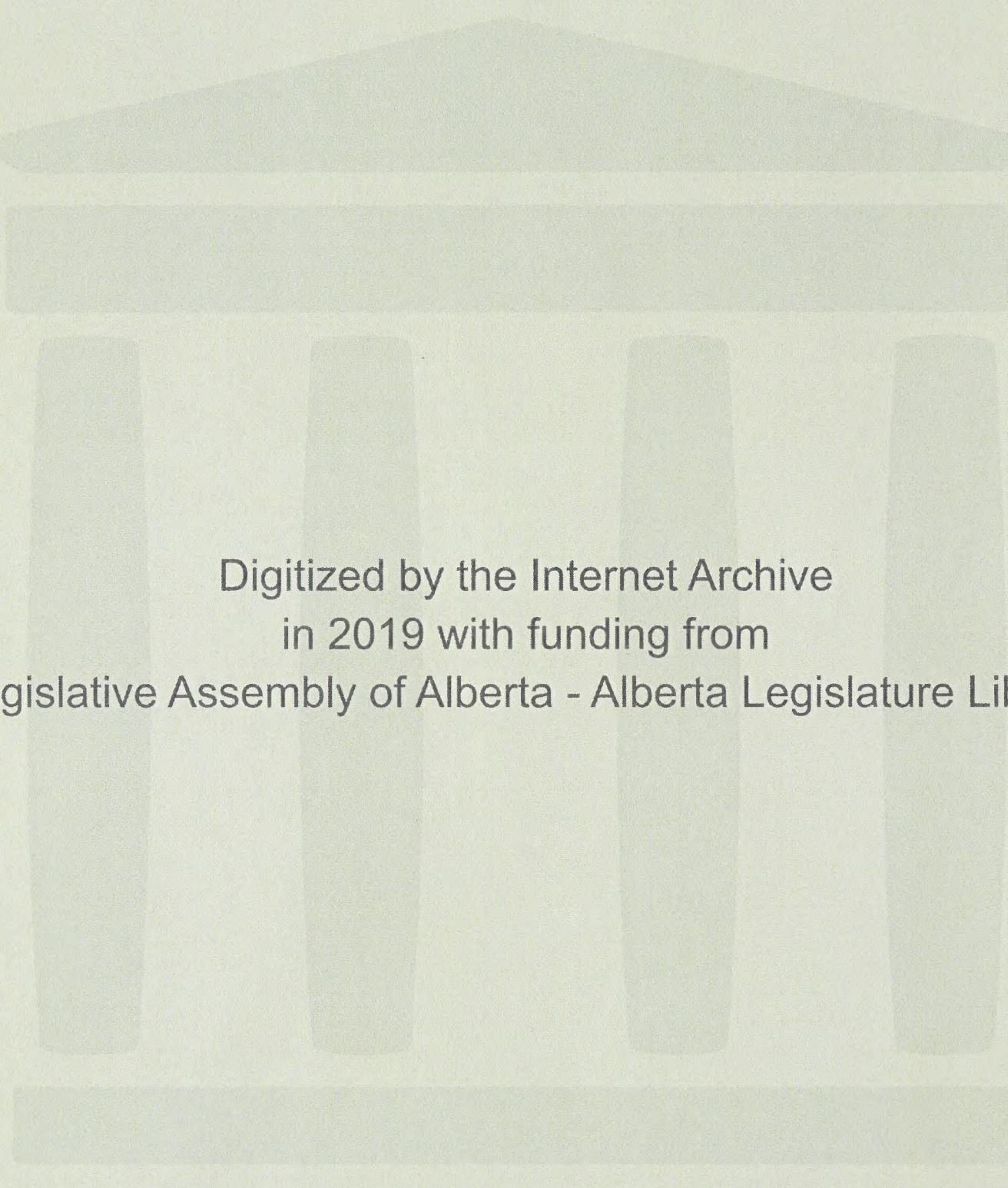
G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta February 6th, 1946

VOLUME 66

A faint, large watermark of the Alberta Legislature building is visible in the background. The building is a classical structure with a prominent central dome and four smaller towers. The watermark is light gray and occupies the upper half of the page.

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February 6th, 1946.

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Wednesday, 9.30 A.M. SESSION.

THE CHAIRMAN: Very well, Gentlemen.

MR. BLANCHARD: I understand that we are going to put Mr. Brownie in first as he has some matters to complete.

MR. McDONALD: Before we deal with that, I was wondering if we could have any expression of opinion from Mr. Steer as to his intention in regard to the Court of Appeal's judgment.

MR. STEER: I have instructions, Mr. Chairman, to appeal and I am taking steps to do so.

MR. McDONALD: In regard to that, I think there is some information available in regard to the Gas Company's books in the records of the Public Utility Commission and I want to give consideration to subpoenaing the Secretary of the Public Utility Commission to produce his records and I have particular reference to the Annual Report made and which was part of the judgment of the Board in 1931.

THE CHAIRMAN: If we cannot compel a member of the Board to give evidence, how can you compel a member of the staff to give evidence? I merely suggest that to you.

MR. CHAMBERS: There is a provision in the Act, the Public Utilities Act, Section 22, Sub-section 8:

"No member or employee of the Board shall be required to give testimony in any civil suit, to which the Board is not a party, with regard to information obtained by him in the discharge of his official duties."

I submit that obviously is a suit between private citizens and does not refer to criminal proceedings or another

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Hearing of the Public Utilities Board.

MR. STEER: We might as well get that question settled at the same time as we are getting the other decided by The Supreme Court of Canada.

THE CHAIRMAN: I think so.

MR. CHAMBERS: The only thing about that is it has got to be an appeal from an Order or a Dismissal of the Application.

THE CHAIRMAN: All right.

MR. CHAMBERS: In 1931, the Board stated this - and this is Exhibit 139 - :

"Conditions not under the control of either the company or the public, vitally affect the earnings of this system. These conditions are subject to great variation, particularly the general business and economic situation and the maintenance of the supply of low priced gas in the Turner Valley field. It is highly desirable that a change in these conditions should be reflected by a change in the rate, before the accumulation of any large surplus or deficiency in earnings has taken place.

Having this in view, the Board will require the Company to file with it each year, at the time of the closing of the Company's books, a statement showing all additions to the rate base, sales of gas, revenue, operating expense, reserve charges and all other deductions from earnings, in accordance with the principles used in the tentative rate base and other statements used as a basis for this Order. This will permit rate regulation to follow a change

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" of basic conditions, either on the initiative of the Company, the City or the Board, without undue delay. It should also tend to avoid lengthy and expensive Hearings and at the same time should eliminate to a large extent, the question of accrued surpluses or deficits."

I do submit that that information, I assume, has been furnished and sub-section 8 of Section 22 of the Public Utilities Act to which I referred only mentions one thing on which a servant cannot be called and that is in a civil suit and I submit this Proceeding is certainly not a civil suit

THE CHAIRMAN: Well, Mr. Chambers, I have this feeling about it. An application was made to me and I made an Order. That Order was appealed from. The Order was upheld by the Appellate Division. That is going to be appealed from again. I am not going to assist anyone by back-door methods to do indirectly that which I tried to do directly.

MR. CHAMBERS: Sir, I submit that whether or not it is a back-door method is not the real vital question. It is whether, under this statute, the power is there. As I understand it, my learned friend contended in the appeal that the power was not there and that we are dealing now with another section of the Act altogether.

THE CHAIRMAN: I was not there when the appeal was heard and I am not interested. I have made my ruling. I will not do anything further with the Gas Company until their appeal has been heard by The Supreme Court of Canada.

MR. STEER: I may say this, Mr. Chairman, that my same objection will be made to the production of any

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F. A. Brownie, Recalled.

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statement that my learned friend refers to as previously happened with regard to the books. They are not relevant. That is my whole argument.

MR. CHAMBERS: Mr. Chairman, you said not till the matter had been heard by The Supreme Court of Canada and I imagine you mean until it is either heard by The Supreme Court of Canada or the right of my learned friend to appeal has been disposed of.

THE CHAIRMAN: Well, all right. The fact is, Mr. Chambers, that the application you are now making is tied up in the other and until the appeal has been disposed of I am not going to order the Gas Company to do anything under this particular statute.

Now have we more business to go on with this morning?

.....

FRANK AUSTIN BROWNIE, Recalled.

Cross-examined by Mr. Chambers.

Q Mr. Brownie, when you were giving evidence on the 22nd of January, 1946, as contained in Volume 64 of the transcript, page 5126, you were to get for us certain information. I think one was the total gas sales for 1945.

A Yes, I have that figure, Mr. Chambers. 12,444,363 mcf.

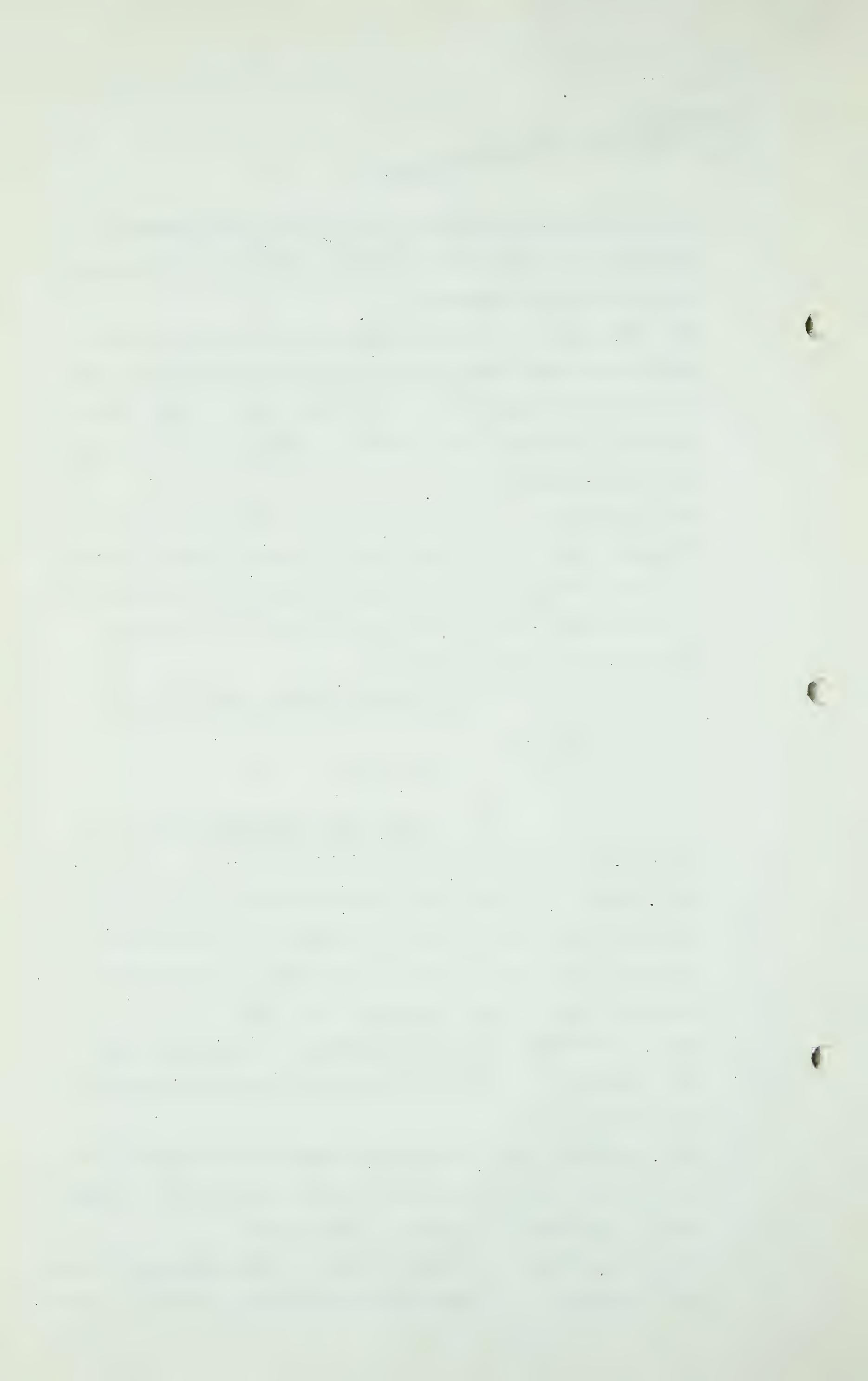
Q MR. HARVIE: Would you give me that again, please? The 1945 sales?

A Yes. 12,444,363 mcf. The entire sales for the system, not including the Alberta Nitrogen or the Imperial Oil Refinery.

Q Can you give me the figures of those two?

A I have a statement to submit later on that point, Mr. Harvie.

Q MR. CHAMBERS: Then you were also kind enough to state



Frank A. Brownie, Recalled.
Cross-Exam. by Mr. Chambers.

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you would get for us what were the Gas Company's total sales for each of the years 1926 to 1945, adjusted to normal temperatures.

A I have a statement prepared covering that information, Mr. Chambers.

STATEMENT - "TOTAL SALES - CORRECTED TO NORMAL TEMPERATURE"
The Canadian Western Natural Gas, Light, Heat and Power Company Limited, for the years 1926 to 1945, NOW MARKED EXHIBIT 141.

MR. CHAMBERS: Perhaps if the reporter will copy this into the record, there will be no necessity of having it read now.

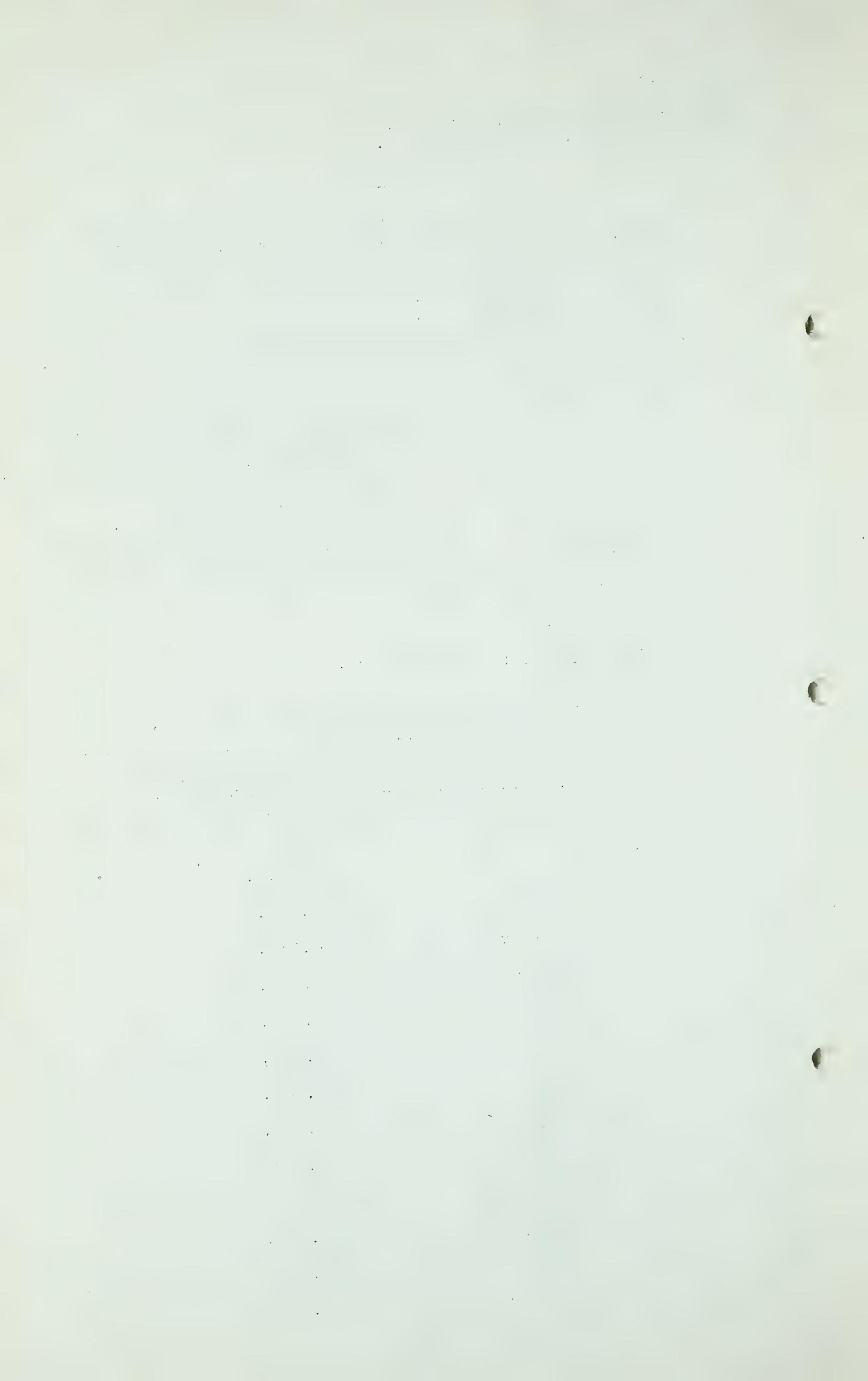
THE CHAIRMAN: Correct.

THE CANADIAN WESTERN NATURAL GAS, LIGHT, HEAT & POWER CO., LIMITED.

TOTAL SALES - CORRECTED TO NORMAL TEMPERATURE

(Excluding Imperial Oil Refinery and Alberta Nitrogen)

	<u>M.c.f.</u>
1926	3,080,000
1927	4,220,000
1928	5,170,000
1929	6,680,000
1930	6,770,000
1931	6,830,000
1932	6,790,000
1933	6,700,000
1934	6,820,000
1935	7,040,000
1936	7,120,000
1937	7,080,000



F. A. Brownie, Recalled.
Cross-Exam. by Mr. Chambers.

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	<u>M.c.f.</u>
1938	7,100,000
1939	7,120,000
1940	7,520,000
1941	8,700,000
1942	10,030,000
1943	11,080,000
1944	11,860,000
1945	12,320,000

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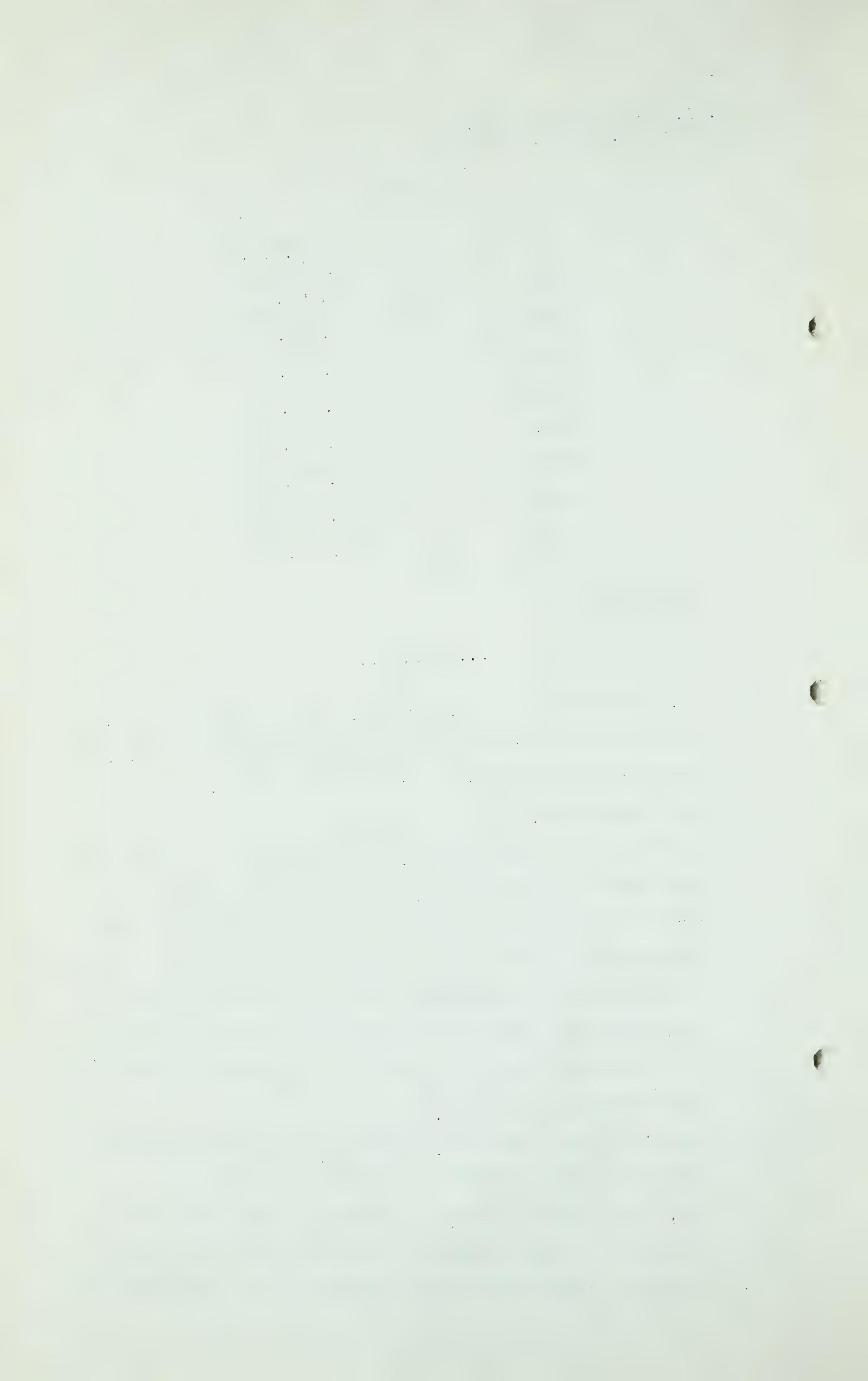
.....

Q. MR. CHAMBERS: Mr. Brownie, how did you make your adjustments in order to arrive at these figures corrected to normal temperature? I think you told us in a general way once before.

A. I told you in a general way, I described in a general way one method of doing it, Mr. Chambers. That method as I recall it was used for the figures preceding 1936. Now subsequent to that time it was done on a different basis. We have a rather elaborate system of correcting revenues and sales for temperatures and it was done on that basis. I do not know whether you want me to attempt to describe that method at the moment.

Q. Maybe it would shorten it, have you your working papers that you used to prepared this Exhibit 141?

A. Well, the working papers, I did not do this for the purposes of this Exhibit. It was just taken out of our records, particularly with respect to the figures for the



F. A. Brownie, Recalled.
Cross-Exam. by Mr. Chambers.

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years following 1936. It is a very elaborate system of arithmetic.

MR. CHAMBERS: If the Board pleases, I do not want to take any more time than I can help at the moment, but I would like the information available. If you could put it down on a piece of paper it might shorten it for us, I mean the formula or how you did it, or if you care to take the time

A Perhaps I can explain it briefly, Mr. Chambers, although I am not just Well, it is a little time since I looked at it.

Q Before you go into that. I notice Exhibit 141 says: "Corrected to Normal Temperature." What is the significance of that term "Normal Temperature"? What does it mean, the word "normal"?

A "Normal Temperature" consists simply of a long-term average.

Q You mean over a term of years?

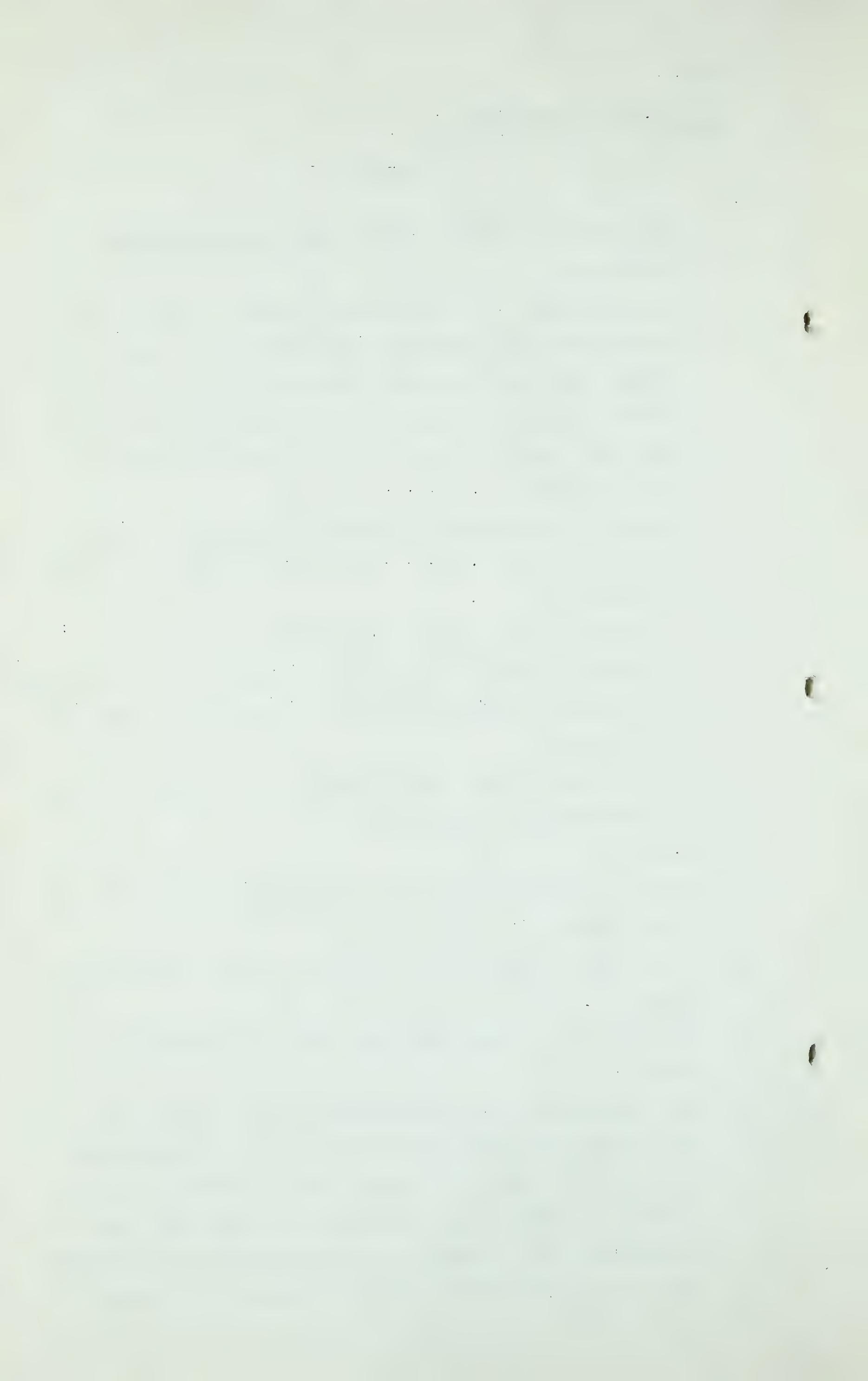
A Yes.

C That is the average temperature throughout those years, is that right?

A It is based on the average temperature over a long period, yes.

Q Can you tell us what period you took for computing Exhibit 141?

A Mr. Chambers, we have a continuous meter reading system, as all Gas companies do. We do not read all our customers' meters at the end of the month, they are read continuously through the month, which means that you could not take the temperature for the month of January or the month of August and say for the current month of January or the current

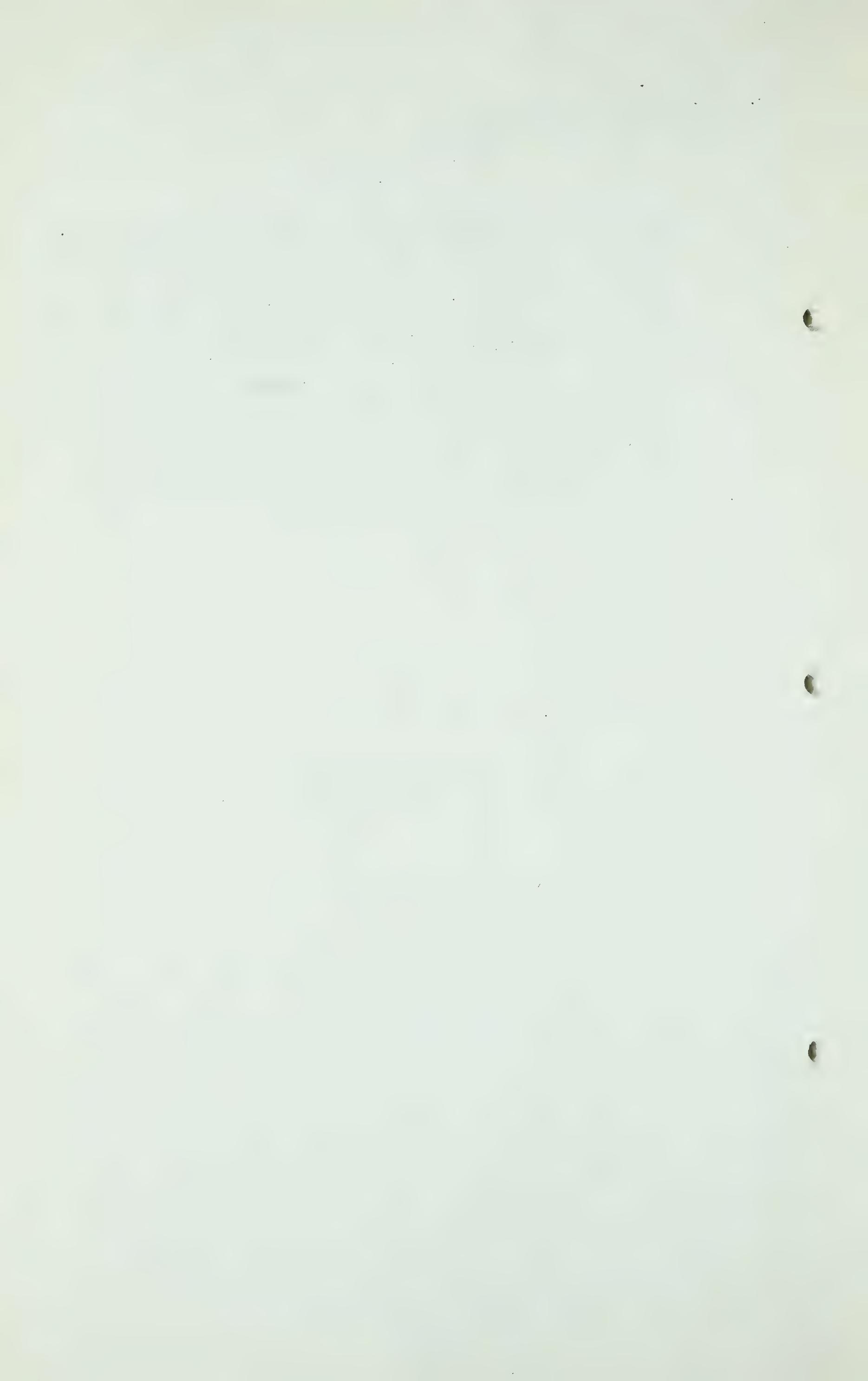


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month of August "that is the temperature which applies to the sales which are attributed to that month," because actually some of the gas consumed or some of the gas paid for or billed in the month of August was actually consumed in the month of July, because we would have read some of our meters early in August. So that you have to have some sort of a system for arriving at what we call the "weighted mean temperature" for operating purposes.

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Now we have computed, - this is several years ago, - a weighted mean normal temperature for each billing period, using average temperatures for each day, accumulated over twenty or twenty-five years.

Q Yes.

A Now that normal temperature is fixed at the present time and we refer to that as the base.

Q Do you know offhand what that figure is ?

A No, I do not, offhand, Mr. Chambers.

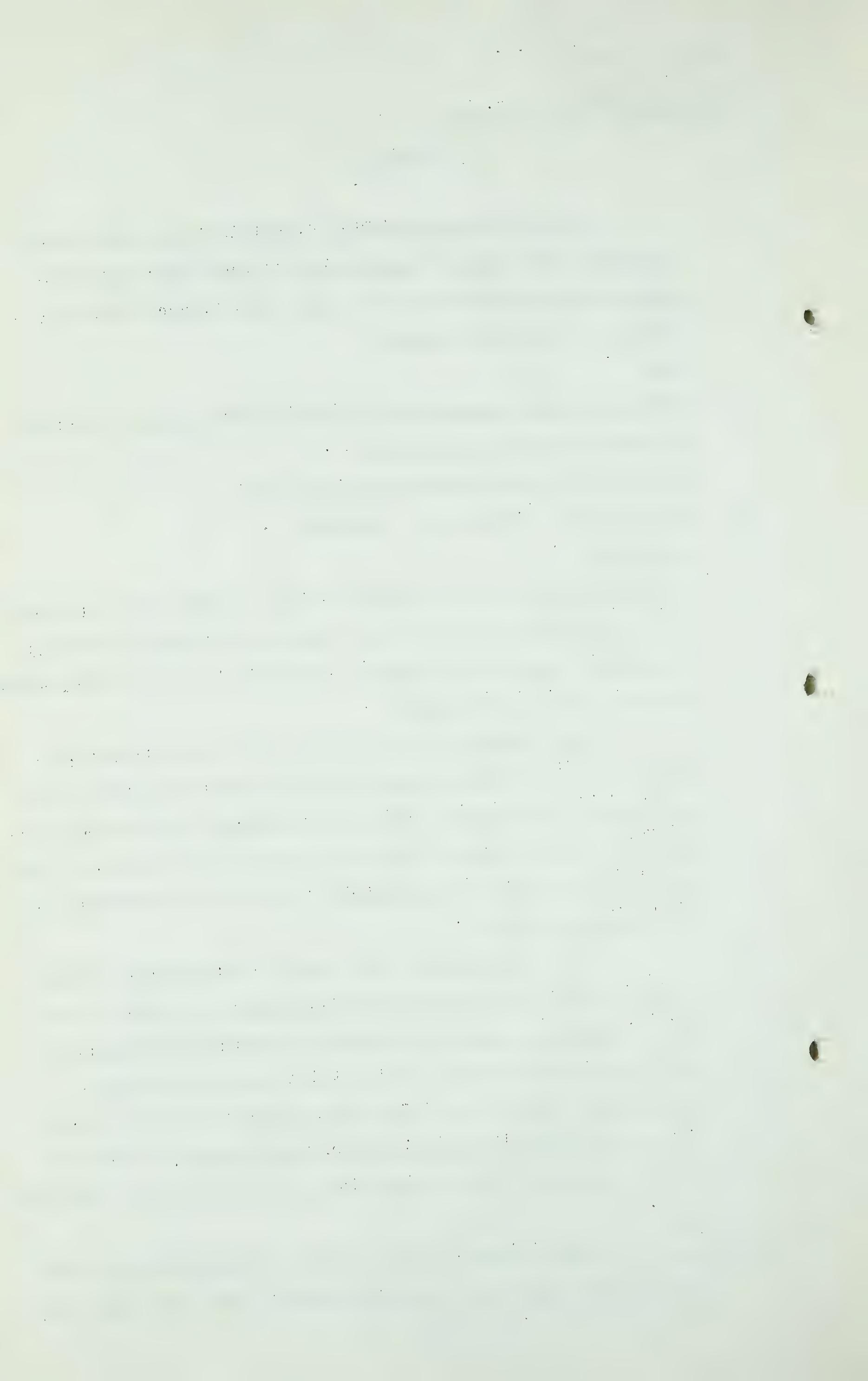
Q All right.

A It would not be of any interest to you at this moment because all I would be able to give you would be the annual normal temperature and we are working, we adjust our sales and revenue through each month's normal.

Now substantially the way we do that is this: we compute for our sales in each month the actual weighted mean temperature and that is rather a complicated thing because it involves determining the number of meters read in each day and taking the average temperatures for each day and weighting that all across the month.

We also determine the length of the meter reading period because that varies, depending upon the length of the month, depending upon the existence of Sundays and holidays, and then we correct that to the thirty day period to get uniformity. Then we plot the sales determined by the thirty day base against the weighted mean temperatures, so that we have a series of points which line up pretty well on a straight line.

Q Let me interject there, do you do that in respect of all your sales in the aggregate or do you break it down into domestic,



F. A. Brownie,
Cross-Exam. by Mr. Chambers. - 5289 -

commercial or industrial, because it occurs to me it might make a difference?

A We break it down. We do it for domestic, commercial and industrial individually.

Q I see?

A Then we have a series of actual points at the bottom of the curve and we go into that curve with the normal temperature for that month and we take off the sales corrected to normal temperatures, and we do that through the years and weigh them all up, which we have done here.

Q And this Exhibit 141 is the figures which were computed from time to time in that month?

A That is right. We did not start using that system until about 1936 or 1937.

Q Now another bit of information you were going to get, I think, was as shown on Page 5133, which was the Edmonton rates in 1936, was it not?

A Well in the early part of 1933, Mr. Chambers, the domestic rate: the first 60 MCF per month were 40 cents. Do you want me to read the whole rate schedule?

Q Is it very long?

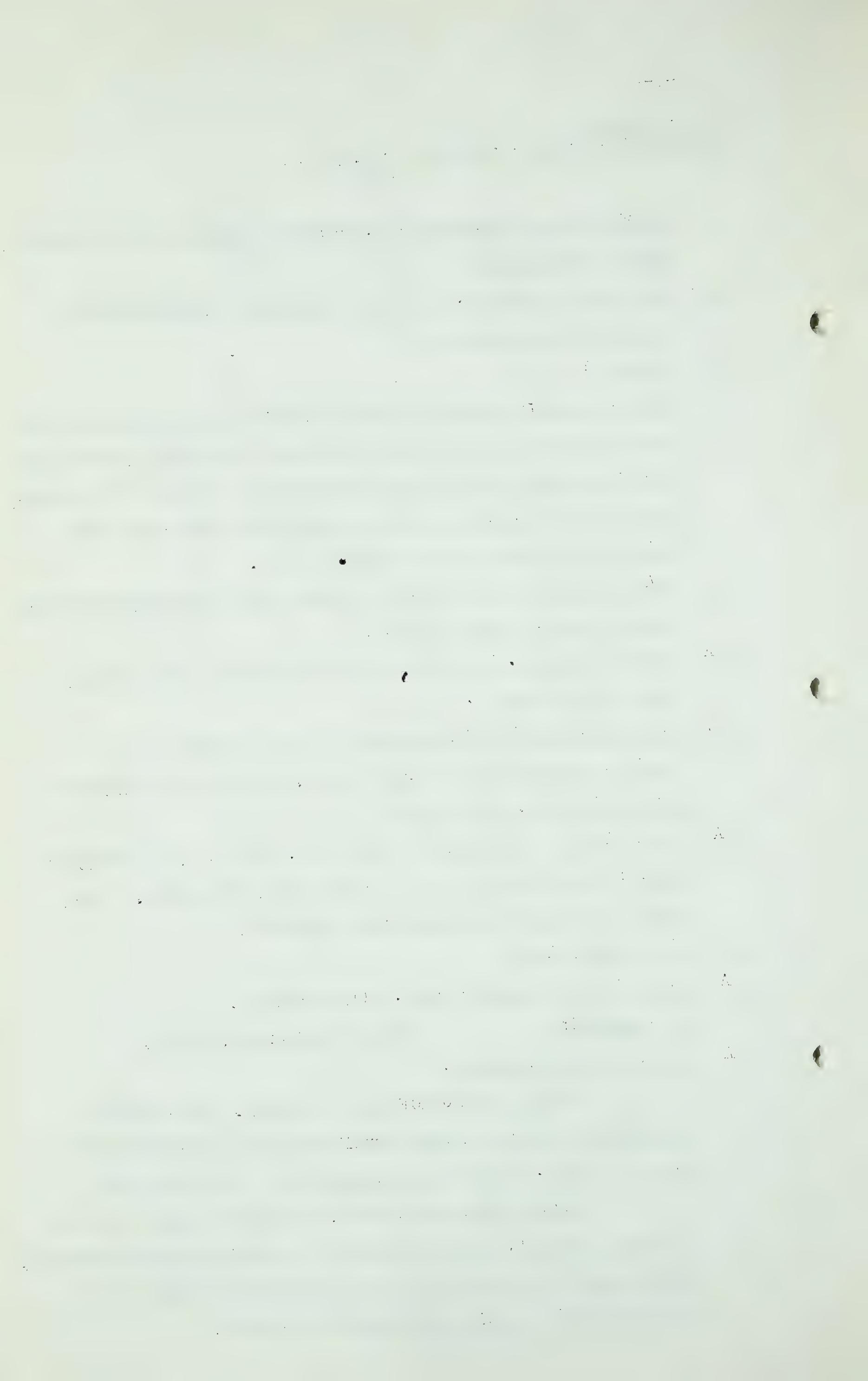
A That is the domestic rate. (Indicating).

MR. HARVIE: This is Edmonton, is it?

A Yes, this is Edmonton.

The next 20 MCF were 30 cents. For further quantities the rate reduced until everything over 1500 MCF were 18 cents. That was all subject to a discount of 5%.

Now in November, 1933, a temporary optional rate went into effect, which resulted in a saving to the consumer. It was only in effect for a few months and I doubt if it is worth while reading that into the record.



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Q No. I do not think so. Then on pages 5153 to 5155 of Volume 64 of the transcript, we had a discussion where I left with you statistical analyses. You have gone over those?

A I have looked at them, Mr. Chambers. I did not go through all the workings.

Q Well now, I was going to ask, first of all, do you agree that the analyses in those pages on that method are correct?

A I did not check the mechanics, Mr. Chambers. I assumed they were correct.

Q Yes. Well then would, - aside from the actual arithmetic, would you say the methods were sound?

A In reference to my Appendix 5 I would say it was, yes.

Q What about 7, about the reference to Appendix 7?

A I would not attempt to apply that sort of thing to Appendix 7, Mr. Chambers.

Q Probably, so that we know what we are talking about, I think that should be marked as an Exhibit.

THE CHAIRMAN: That is the statement that was filed when Mr. Zindor was in the box, is it not?

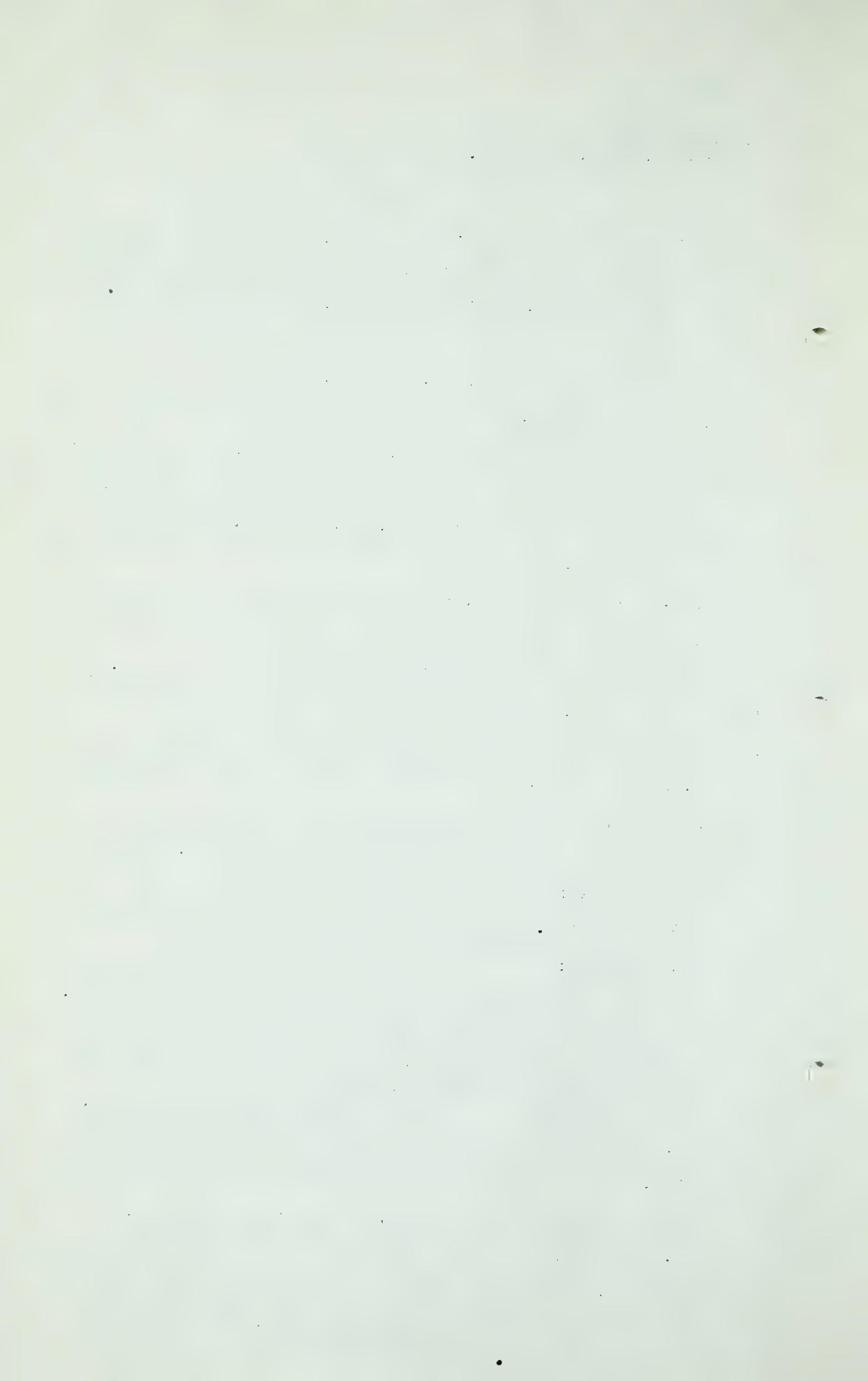
MR. CHAMBERS: No, I presented it to Mr. Brownie as being an analysis of certain appendixes in his exhibit. I did not press it then because he obviously did not have an opportunity of looking into it.

THE CHAIRMAN: That will be Exhibit 142 then.

MR. CHAMBERS: I think we distributed them at the time.

THE CHAIRMAN: Yes, I have copies of them.

MR. CHAMBERS: They are both here and I will file them now.



F. A. Brownie,
Cross-Exam. by Mr. Chambers.

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Now, Mr. Brownie, you stated that you would not apply the analyses to Appendix 7 here, of your Report, which is Exhibit 137. Now why, why would you not do that?

A Well just going back to this analysis in respect to Appendix 5, Mr. Chambers, perhaps I should explain my understanding of the significance of it. I have a few pencilled notes here that I made as I looked over it.

Q Yes?

A In the Bonneville Chart we have a number of plotted points with a smooth curve drawn through them. We do not know whether the curve was fitted to the point merely by eye, or whether it was fitted on a basis of statistical analysis.

The Statement, Exhibit 142, tests this method by a statistical method, and finds that it is a good fit. Now that is my understanding of that. The importance or significance of that exhibit.

Then you go further and you try to apply the same method to fit the curve to the point, to the data in Appendix 7, and as a result you conclude that neither the Edmonton nor the Calgary data conform to the Bonneville type curve, and that conclusions similar to those drawn from the Bonneville data cannot be drawn from the Edmonton and Calgary data, organized in this way.

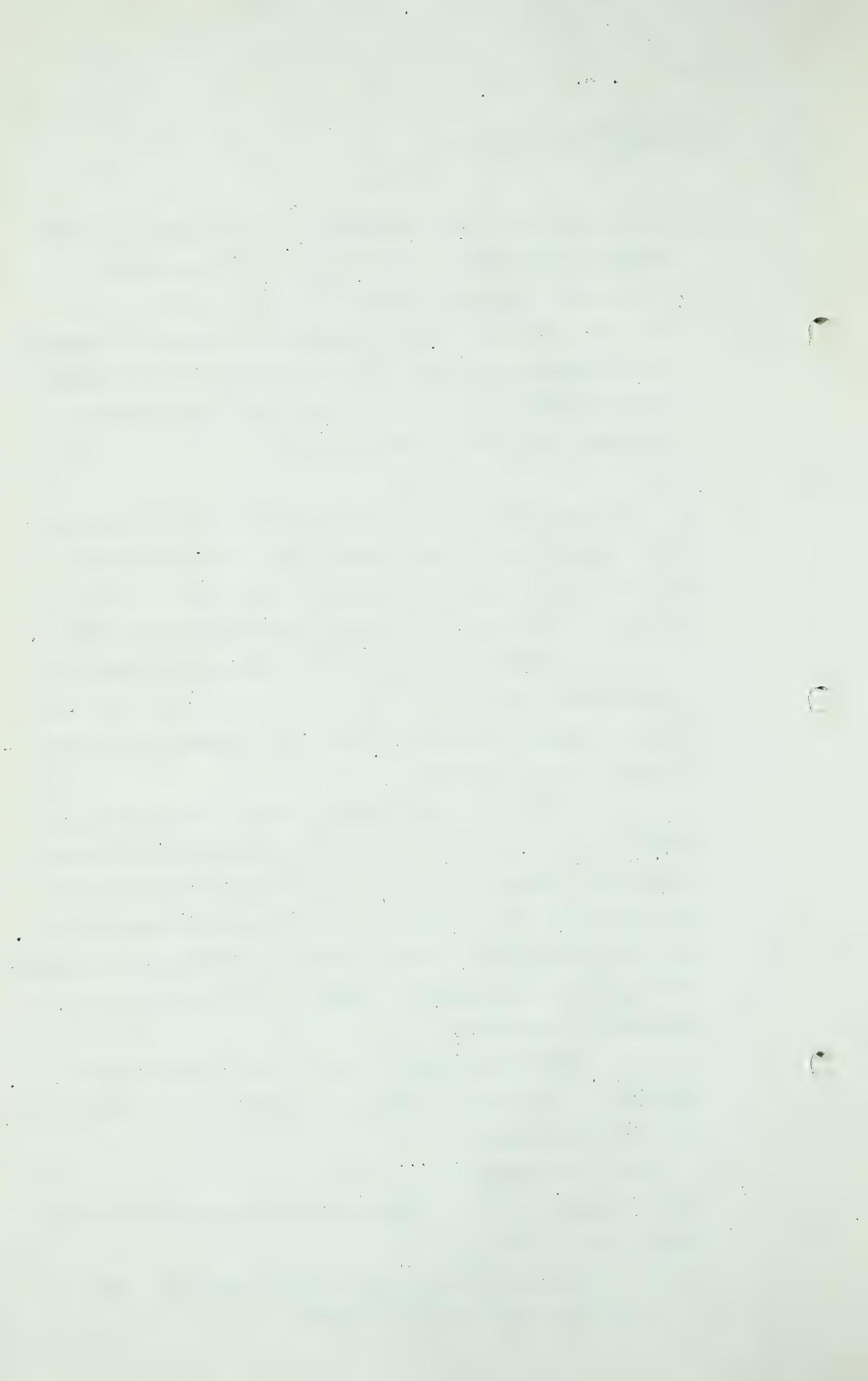
Now that is exactly what we say in our report, Mr. Chambers. It might be useful to read Page 11 of our report, starting at the top:

"It is not easy".....

Q THE CHAIRMAN: What is the exhibit number of that?

A Exhibit 137. We say:

"It is not easy to show trends comparable with those indicated in 1 and 2 above"



F. A. Brownie,
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that is the Bonneville data, and the Massachusetts data.

'with those indicated in 1 and 2 above from data in respect to a single company over the years because of the distorting effect of other factors. However, certain local data are presented here which support the theory that an increase in rate will tend to be offset by decreased usage.

A tabulation (Appendix 7) is presented which shows a comparison between average annual net revenue per customer of the Calgary and Edmonton Gas Companies for the years 1929 to 1944.'

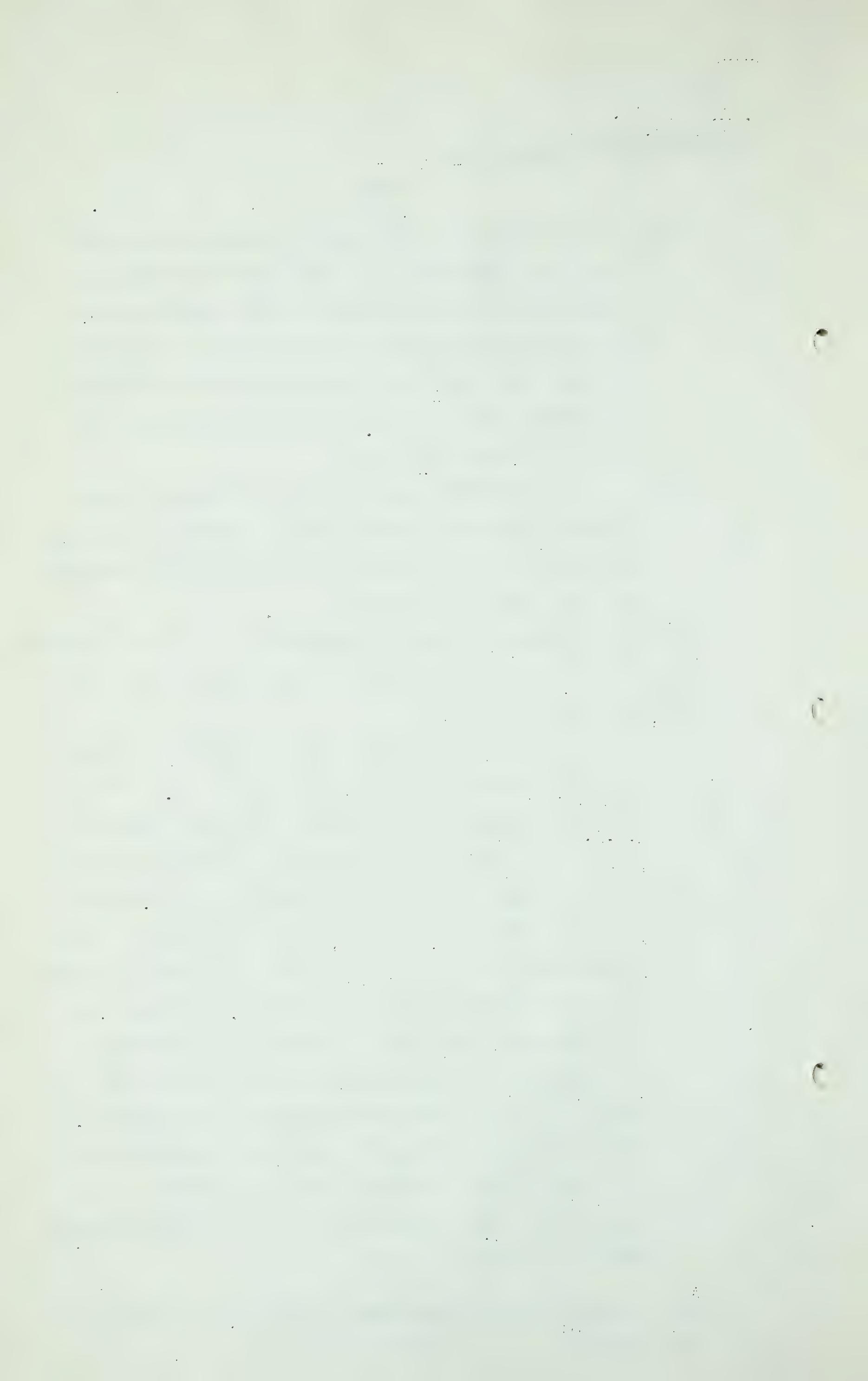
We simply compare the two Gas Companies. We are not comparing them year by year, and we are not comparing one year by another year.

During that time the Edmonton average rate has always been higher than the Calgary rate by amounts varying from over 9¢ to less than 0.5¢ per M.C.F. We state that the average revenue per customer in both companies has varied from year to year with changing temperatures and economic conditions. It is interesting to note, however, that at no time has there been any material difference in average revenue per customer as between the two companies. Moreover, although the Edmonton rate has always exceeded the Calgary rate, the Edmonton revenue has been higher than Calgary in nine years and lower in seven years.

This seems to indicate that, regardless of the rate, revenue per customer in these two cities remains about the same."

And it may be that that sentence is not entirely clear.

Q MR. CHAMBERS: That is the point.



F. A. Brownie,
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A What I intended to mean was, that comparing the two companies, in any one year the revenue is about the same.

Q Now, as I understand it, Appendix 7 is intended to indicate that regardless of the rate, the revenue obtained is about the same, is that it?

A Regardless of the ratio in the two cities at any one time, the revenue is about the same, yes.

Q Are you talking about the aggregate revenue of the two companies?

A Yes.

Q In other words, you did not intend that statement to apply to the appendix, to the column in Appendix 7 under "Canadian Western" alone?

A No, no.

Q In other words, if you omit "Northwestern" in the figures there, from Appendix 7, you would not regard Appendix 7 as backing up that statement of yours "Regardless of the rate the revenue remains the same"?

A No, I would not, Mr. Chambers. I stated that or tried to.

MR. CHAMBERS: I will not pursue that matter any further then.

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F. A. Brownie,
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Q Now Mr. Brownie one other thing, in the affidavit that you filed some time ago there was an exhibit to it, as an Exhibit to the affidavit, the Nitrogen contract and it occurs to me sir that we should have it marked with an Exhibit number in the proceedings. Now I understand from the Reporters that the contract is not here. It is filed in Edmonton.

THE CHAIRMAN: Well I looked for it this morning and I have not it downstairs.

MR. CHAMBERS: It is in the Appeal Book, a copy of it.

MR. STEER: That contract is in.

THE CHAIRMAN: As an Exhibit to an affidavit.

MR. CHAMBERS: It was never given a number.

MR. STEER: There is no objection to giving it a number now is there ?

MR. CHAMBERS: And I want to refer to it this morning.

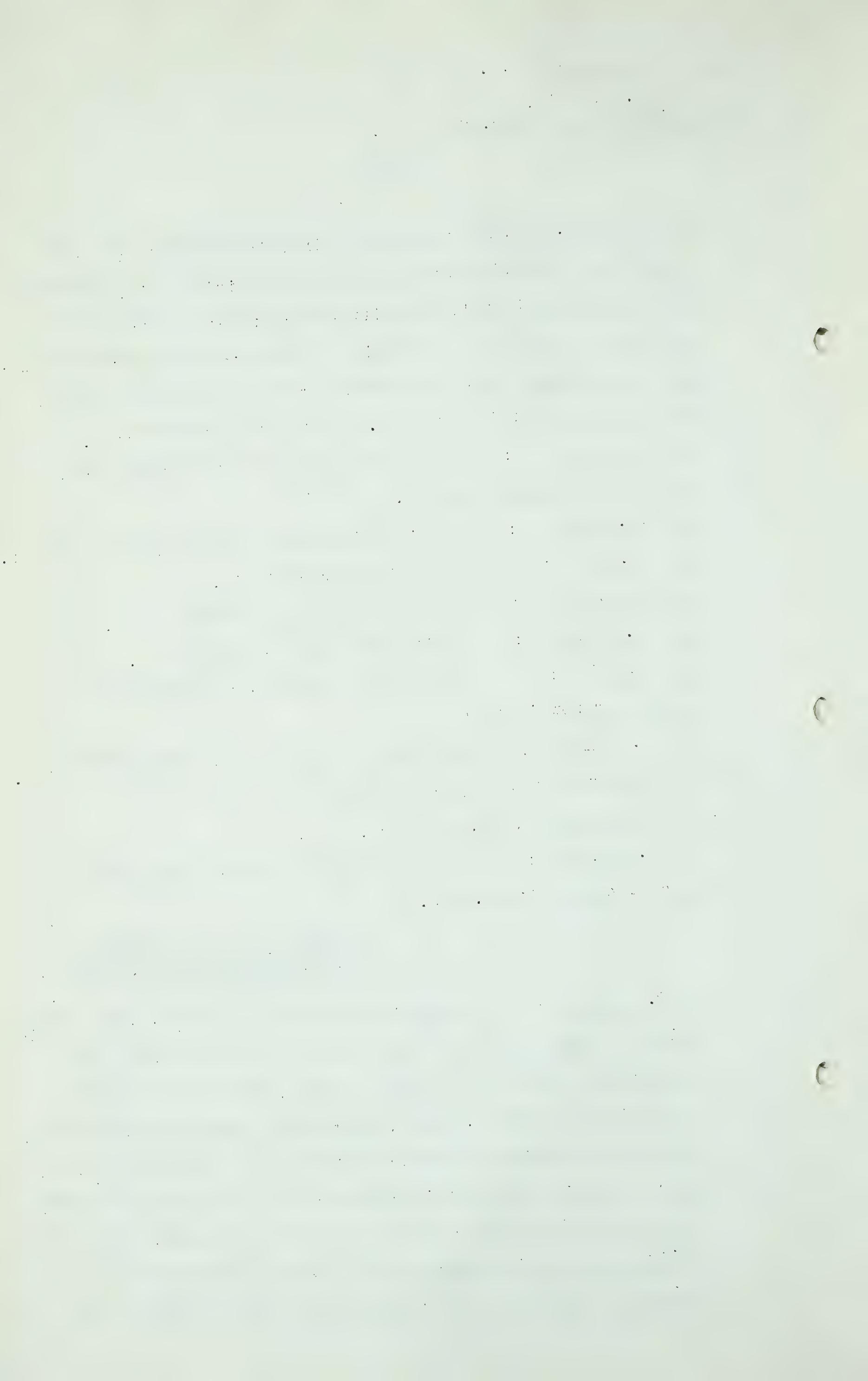
Q You have not by any chance got one ?

A No I have not, Mr. Chambers.

MR. CHAMBERS: I have a copy of that and that will be called Exhibit No. 143.

ALBERTA NITROGEN PRODUCTS
LIMITED CONTRACT REFERRED TO
TO BE NUMBERED EXHIBIT 143.

Q MR. CHAMBERS: I notice in Clause 9 of Exhibit 143 which is an agreement made as of the 2nd day of August 1941 and executed the 29th day of January 1945 between the Canadian Western Natural Gas, Light, Heat & Power Company Limited and the Alberta Nitrogen Products Limited, it is provided, "it is mutually agreed that this contract and particularly the price of gas herein provided shall be only for the period when the Nitrogen plant is being operated for war purposes by the Nitrogen Company and that should the plant at any time be



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Cross-Exam. by Mr. Chambers.

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operated for ordinary commercial purposes and / or at the termination of the war with the German Reicht this agreement shall become null and void."

Now what rate are you charging the Nitrogen people now ?

A The same rate as provided in that contract.

Q Has there been any special rate with the Nitrogen Company lately concerning that matter ?

A There have been negotiations Mr. Chambers. I have forgotten just how the thing was settled.

MR. STEER: I think we ought to get that information. The situation is that the contract is cancelled pursuant to that clause and then subsequently on representations that the activities of the Nitrogen Company were still war activities in largely the manufacture of fertilizer, the contract was continued and I think is continued from month to month and I think we had better get it accurate.

MR. CHAMBERS: And that new arrangement was made ?

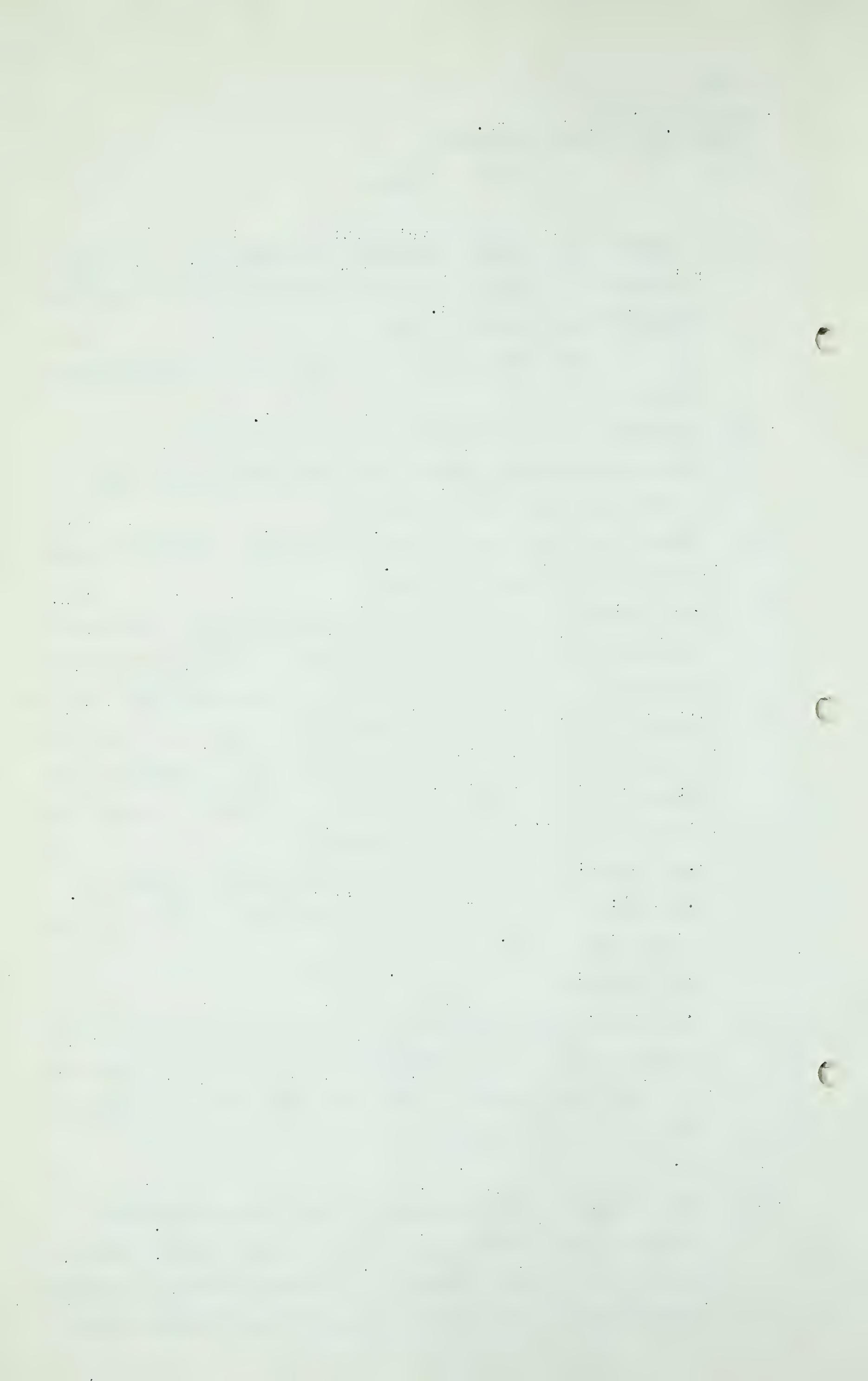
MR. STEER: I would say within the last year or so. I will get you that.

MR. CHAMBERS: Thank you.

Q Mr. Brownie, am I right in this that gas is metered from the Madison Company to your Company in Turner Valley calculated to a different pressure basid than that under which you sell that gas to your customers ?

A Yes.

Q Now I think we had discussion or this term was mentioned earlier in the proceedings. I am not sure with Mr. Brownie or not but the term Boyle's law has been mentioned in connection with gas. Can you tell us briefly what Boyle's law is ?



F. A. Brownie,
Cross-Exam. by Mr. Chambers.

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A I think Boyle's law says that the volume of a given measure of gas varies inversely with absolute pressure.

Q Would this be a general or fairly accurate definition. Boyle's law is in effect a statement that the volume of gas decreases in proportion to the pressure applied to it ?

A Yes.

Q I understand then that in measuring Turner Valley gas a further factor known as super compressibility is present. Is that right ?

A Yes.

Q What do you mean by super compressibility ?

A Super compressibility is the term used in describing the fact that a gas does not follow directly Boyle's law. As the pressure increases the volume decreases more than would be indicated by Boyle's law.

Q Could you tell me just what is the total effect of these two factors. That is, first of all, the difference in pressure base and secondly, the super compressibility of the volume of gas sold by your Company as compared to that which it purchases?

A We sell somewhat more gas than we purchase.

Q And that is due to those two factors that I have mentioned ?

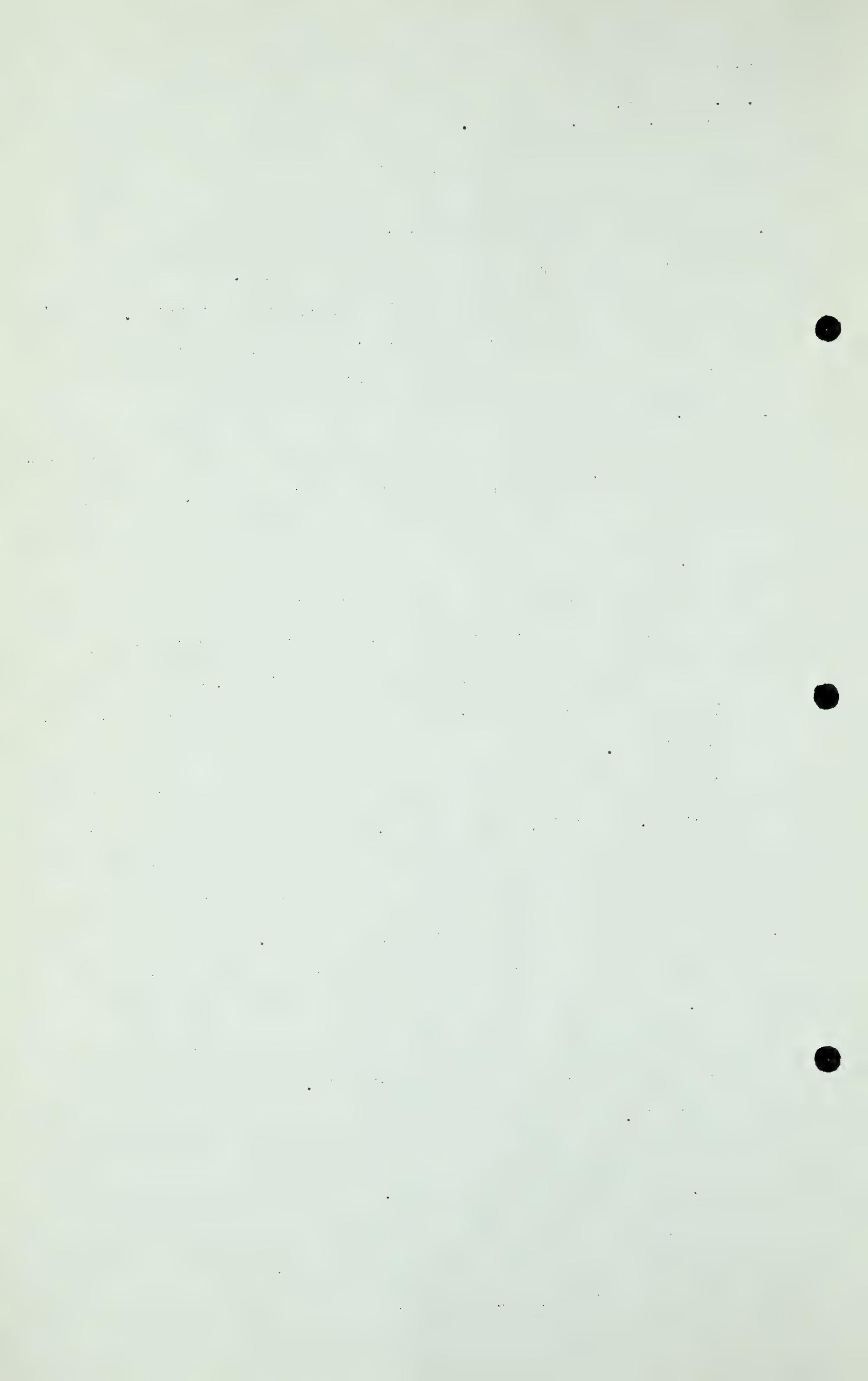
A Yes.

Q Now you have given us in statements showing the gas purchased by your Company or you were to give it. I guess you have not put it in. You have prepared a statement of gas purchased by your Company for the years 1926 to 1945 ?

A Yes, I have that statement here.

STATEMENT SHOWING PURCHASES OF
GAS AS REFERRED TO NOW MARKED
EXHIBIT 144.

Q Then I refer back, Mr. Brownie, to Page 5126 of Volume 64 of



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the transcript where you give us a statement by years of the gas sold by your Company during the years 1926 to 1944. You remember that ?

A Yes.

Q Now have you got those two statements in front of you. I have had them put together and I direct your attention to the years 1929 to 1944 in particular. I have not extra copies of this statement. They are really putting together information that is already on the record. I suggest to you Mr. Brownie that those figures indicate that your Company sold approximately 10.8% more gas in cubic feet than you purchased and I recognize that there may be some Foremost gas in there but I am suggesting to you that the Foremost gas would not account for more than a tenth of one percent of those total figures. Will you tell me whether that statement I have put to you is substantially correct ?

A I do not think it would amount to 10.8%, Mr. Chambers. The figure I have in mind is about $8\frac{1}{2}\%$. There is Foremost gas and there is Brooks gas.

Q Well the overall percentage between all these two figures would of course be a question of mathematics ?

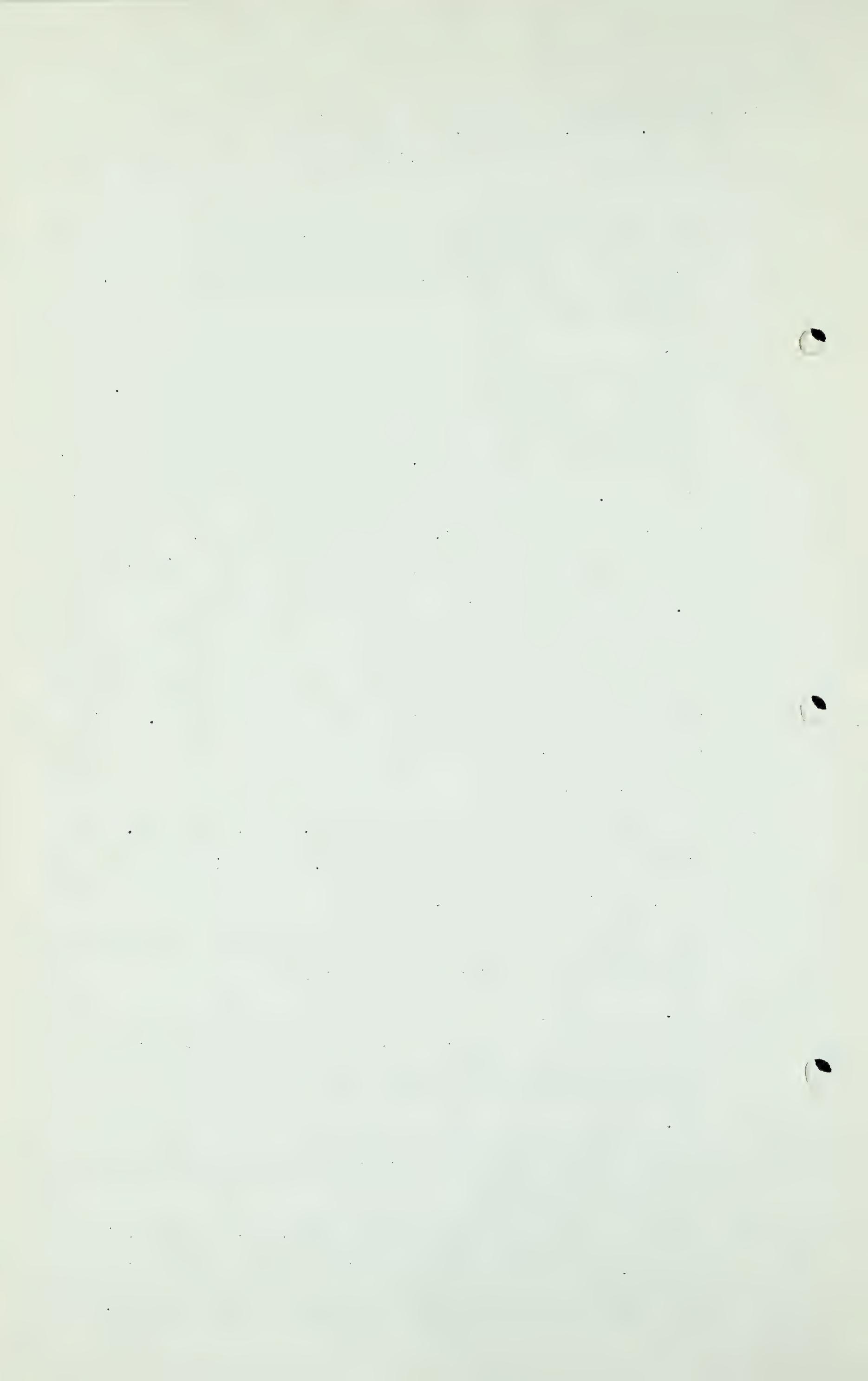
A Yes.

Q And the question comes in as to how much gas comes in from outside points other than Turner Valley ?

A Yes.

Q And the gas I suggest to you from Brooks and Foremost and so on is far less than -

A I would have to check the figures some, Mr. Chambers, but if your 10.8% is correct on the basis of these figures it would not surprise me if Foremost and Brooks amounted to 2%.



F. A. Brownie,
Cross-Exam. by Mr. Chambers.

- 5298 -

Q Will you check that to see ?

A Didn't I put that information in once before ?

Q Is that in as an Exhibit ?

A It may not be in as an Exhibit, but I think it is in in answer to a question by Mr. Harvie when I first appeared in the witness stand.

MR. HARVIE: My recollection is that the figure was not near as high as that.

Q MR. CHAMBERS: That is one reason I am bringing it up to try and get what is the real figure ?

A I have a figure here Mr. Chambers for the years 1929 to 1944 inclusive which indicates that gas purchased and gas produced as per cent of gas sales is 91.83%.

Q Yes, I mean you have discounted your percentage. Your percentage is the percentage of the amount sold. Probably it may be accounted for by my statement. My statement was that the amount you bought was increased by ?

A Yes, that would account for part of it.

(Go to Page 5299)

F. A. Brownie,
Cross-Exam. by Mr. Chambers.

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Q Would it be possible for us to have, without too much trouble, the amount that you have brought into the system and sold for those years from places other than Turner Valley, so that we will have the record complete?

A Yes.

Q That will be possible. Now, I think you will agree with this from what you have said, that the difference or that percentage, whatever it is, is mainly accounted for by the difference in the pressure base and this compressibility factor?

A That is correct.

Q And, as I take it, that for every thousand cubic feet of gas your Company purchases from Madison, you are able to sell and get paid for 1080 or 1090 cubic feet, something around there, whatever that factor appears to be?

A Yes, it is exactly the same as that for the purchased gas.

Q Mr. Brownie, can you tell me what, if any, drilling operations that is, for gas, has Canadian Western carried on in recent years in connection with its gas supply?

A No, I cannot offhand, Mr. Chambers.

Q Well, has it carried on any since you have been with them that you know of?

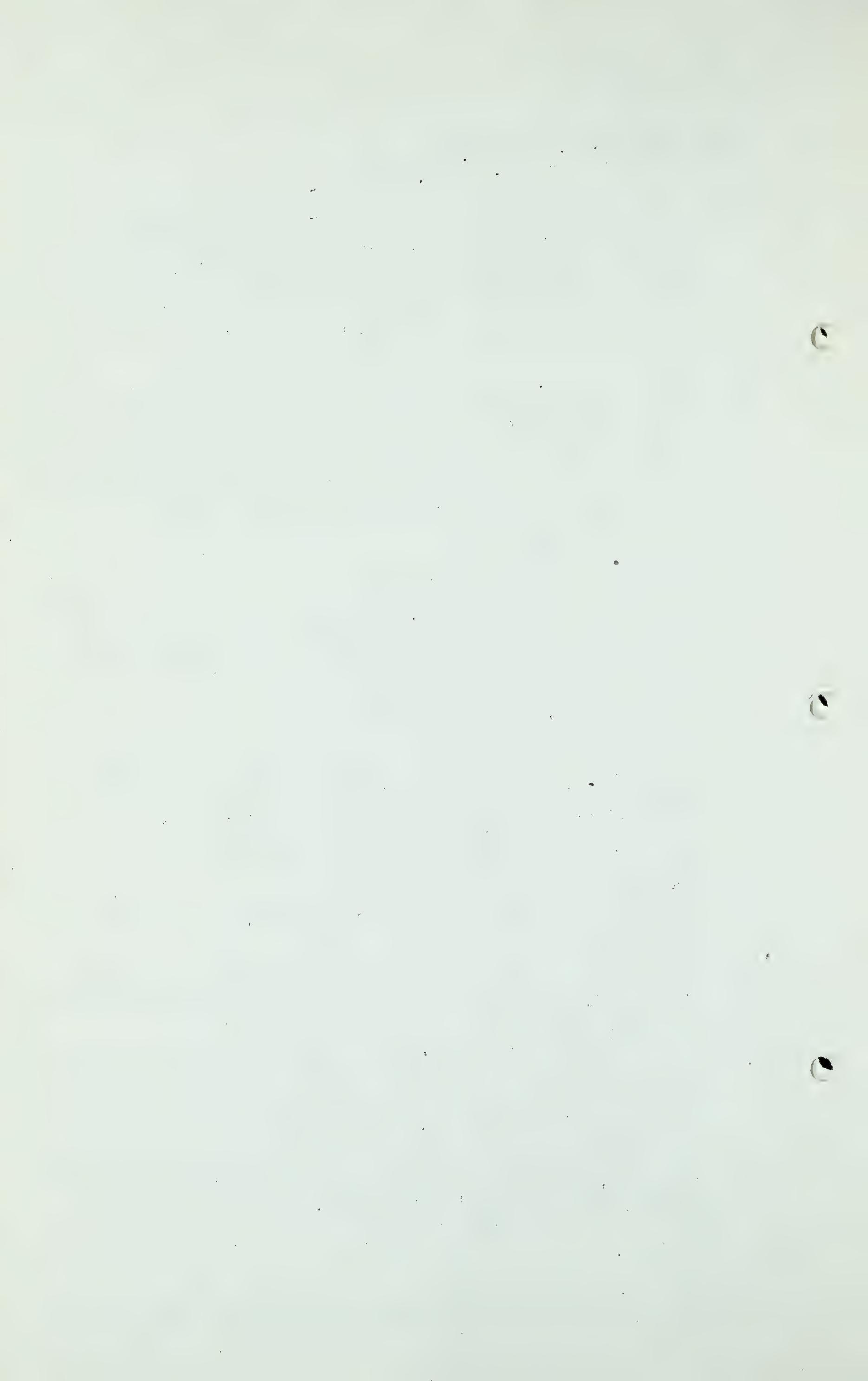
A Well, the group of companies has carried on rather extensive drilling operations.

Q But I am referring to Canadian Western Natural Gas, Light, Heat & Power Company, and I am referring to operations in respect to which it has spent the money?

A Well, I know this, Mr. Chambers, that Canadian Western has not drilled any wells since I joined the Canadian Western in 1939.

Q Yes?

A But what contributions it has made to drilling wells, what it



F. A. Brownie,
Cross-Exam. by Mr. Chambers.

- 5300 -

did prior to that time, I only know generally, and I am not in a position to say at the moment.

Q Well, do you know of any contributions it has made in recent years for that purpose?

A Well, I recall the Arca well at High River, Mr. Chambers. That was related to Canadian Western in some way, and there are numerous other wells.

Q All right. Can you tell me this in a general way, what undeveloped gas reserves areas does Canadian Western carry on of its own to assure itself a future gas supply?

A No, I cannot.

Q You do not know?

A No.

Q Has it carried on any in recent years?

A Not that I know of.

Q Does Canadian Western maintain a geological department?

A Yes.

Q I understand that at one time Mr. Slipper was with your company?

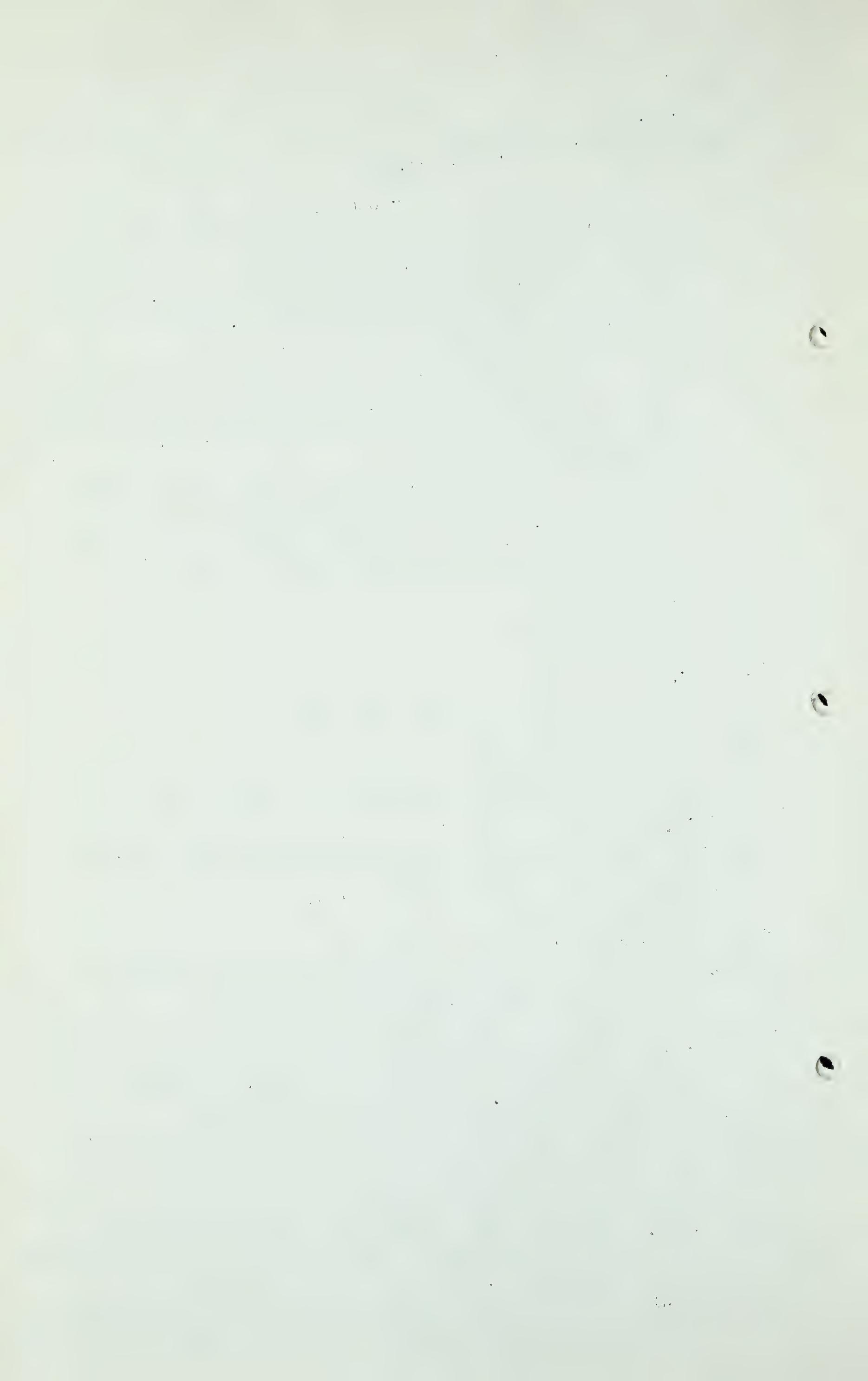
A That is correct.

Q And some years ago your Company reduced its geological department, is that substantially correct?

A Yes, there was a change in the organization. The geological department, except Mr. Slipper, all joined the Army, and Mr. Slipper was retained in a consulting capacity.

Q What does this geological department concern itself with, looking for gas fields or what?

A Well, Mr. Slipper was retained as a consulting geologist up to the end of last year. Two of our men who formerly worked with Mr. Slipper, are now back out of the Army with our geological department again. It is concerned with production



F. A. Brownie,
Cross-Exam. by Mr. Chambers.
Cross-Exam. by Mr. Fenerty.

- 5301 -

matters, both of this Company and Northwestern Utilities, and concerned generally with geological matters in Western Canada.

Q You said that they concern themselves with production matters. I take it that is production of Foremost, Bow Island, and Brooks, is that right?

A And Viking and Kinsella.

Q Yes, but referring now with respect to Canadian Western?

A Yes, that is correct.

Q Thanks, Mr. Brownie.

.....

CROSS-EXAMINATION BY MR. FENERTY

Q Mr. Brownie, could you tell us the differences between the Edmonton and Calgary rates, my understanding is it has something to do with the minimum charges?

A Yes. In the general rate in Calgary, the customer gets 4000 cubic feet for the minimum monthly charge of \$1.50. The corresponding charge in Edmonton is \$2.00

Q Are there any differences in industrial and commercial rates?

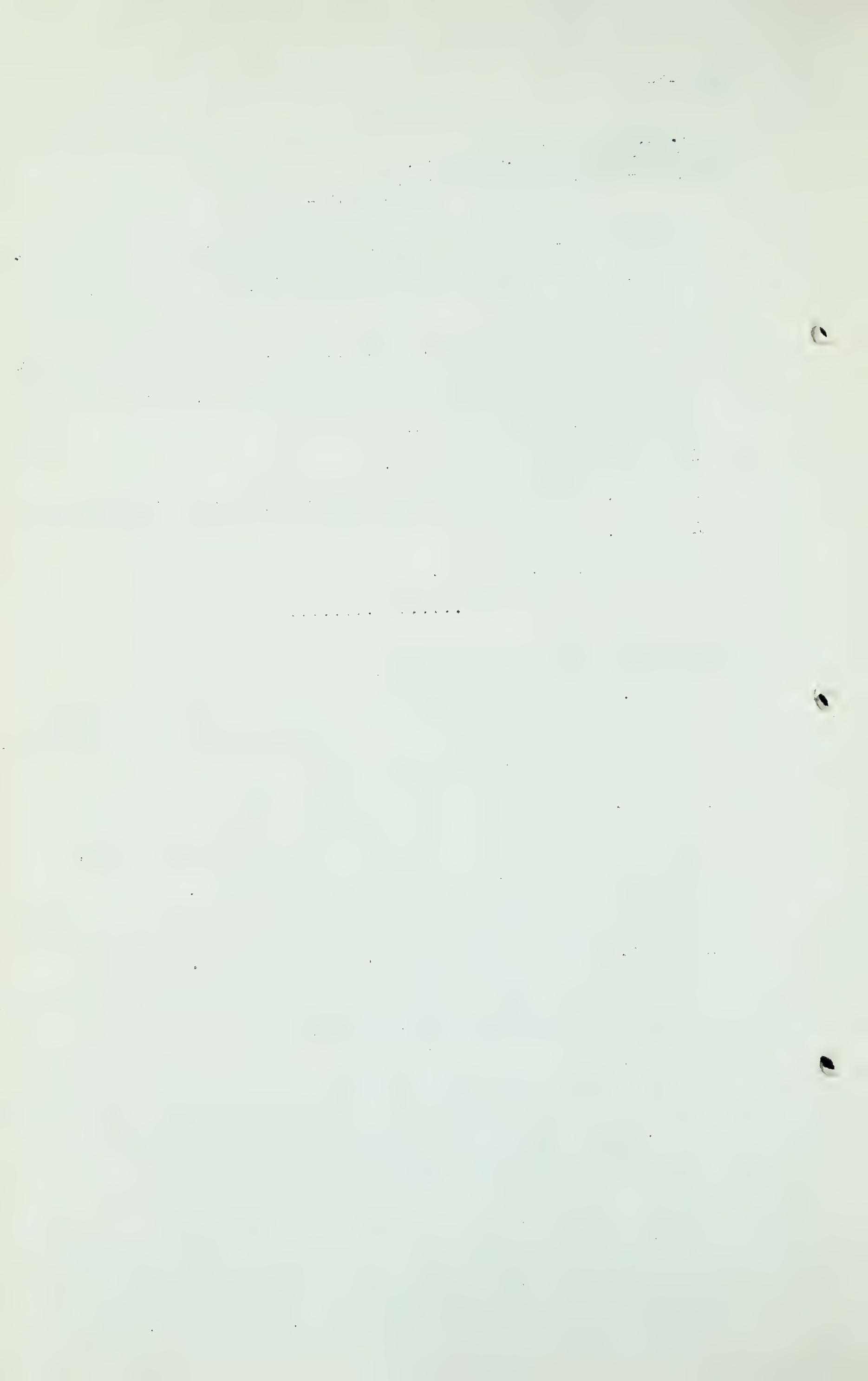
A Yes, there are differences. First of all, the Canadian Western Company has the old general rate Number 1, to which there is no comparable rate in Edmonton.

Q Yes?

A And the Canadian Western has a domestic combination rate Number 2, which corresponds with rate Number 1 in Edmonton, the difference being those rates we have just discussed.

Q Yes?

A Canadian Western has a commercial and industrial combination rate Number 3, which corresponds to commercial and industrial optional rate Number 2 in Edmonton. I am sorry. Canadian



F.A. Brownie,
Cross-Exam. by Mr. Fenerty.

- 5302 -

Western has a commercial and industrial combination rate Number 3, which has no counterpart in the Edmonton rates. It is the same as the domestic combination rate except that the commodity charge is 26 cents instead of 25 cents. Then the Canadian Western has a commercial and industrial rate Number 4, corresponding to Northwestern's commercial and industrial rate Number 2. They are the same type of rate but fixed charges and the commodity charges are substantially different. Do you want me to outline them?

Q. Oh, I think that is all I want.

A. And then each company has a high load factor rate, which are substantially the same in form.

Q. Thank you. Now, I understand, Mr. Brownie, that you have had, at our request, prepared a statement showing sales and consumption of gas in the three categories, of domestic, commercial and industrial, as shown by your records for the year 1939 and for the year 1944.

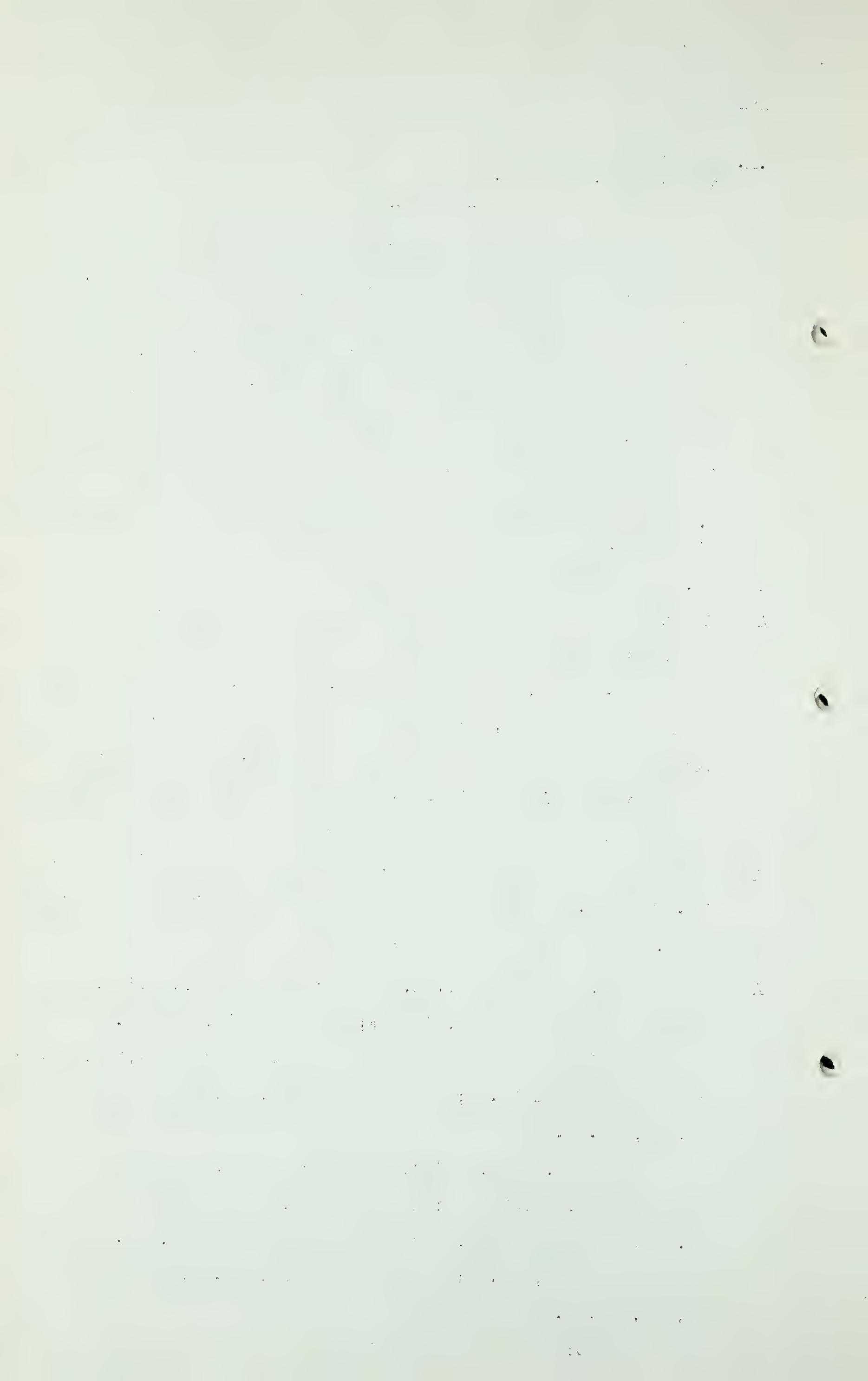
A. I did not prepare a statement. I have the information here, Mr. Fenerty. Perhaps I should have prepared a statement.

Q. Well, could you give us that?

A. 1939 sales, domestic, 3,794,785 MCF; commercial, 2,103,266 MCF; industrial, 1,068,747 MCF; total 6,966,798 MCF. Corresponding revenues in the year 1939, domestic, \$1,272,924.00; commercial \$635,511.00; industrial \$215,611.00; total \$2,124,046.00.

Now, 1944, sales, domestic 4,541,454 MCF; commercial 3,921,304 MCF; industrial 2,436,323 MCF; total 10,899,081 MCF. 1944, revenues, domestic \$1,301,066.00; commercial \$891,069.00; industrial \$416,685.00; total \$2,608,820.00.

Q. MR. CHAMBERS: That is for the City of Calgary?



F. A. Brownie,
Cross-Exam. by Mr. Fenerty.
Cross-Exam. by Mr. Harvie.

- 5303 -

A That is for the entire system.

Q That is for the entire system?

A Not calculating the Alberta Nitrogen and the Imperial Oil Refinery.

MR. FENERTY: That is all I have.

.....

CROSS-EXAMINATION BY MR. HARVIE

Q Why do you always exclude those?

A Well because we always considered them gas transported up to the introduction of our rate Number 6.

Q Could you give us some information of gas deliveries to those two customers?

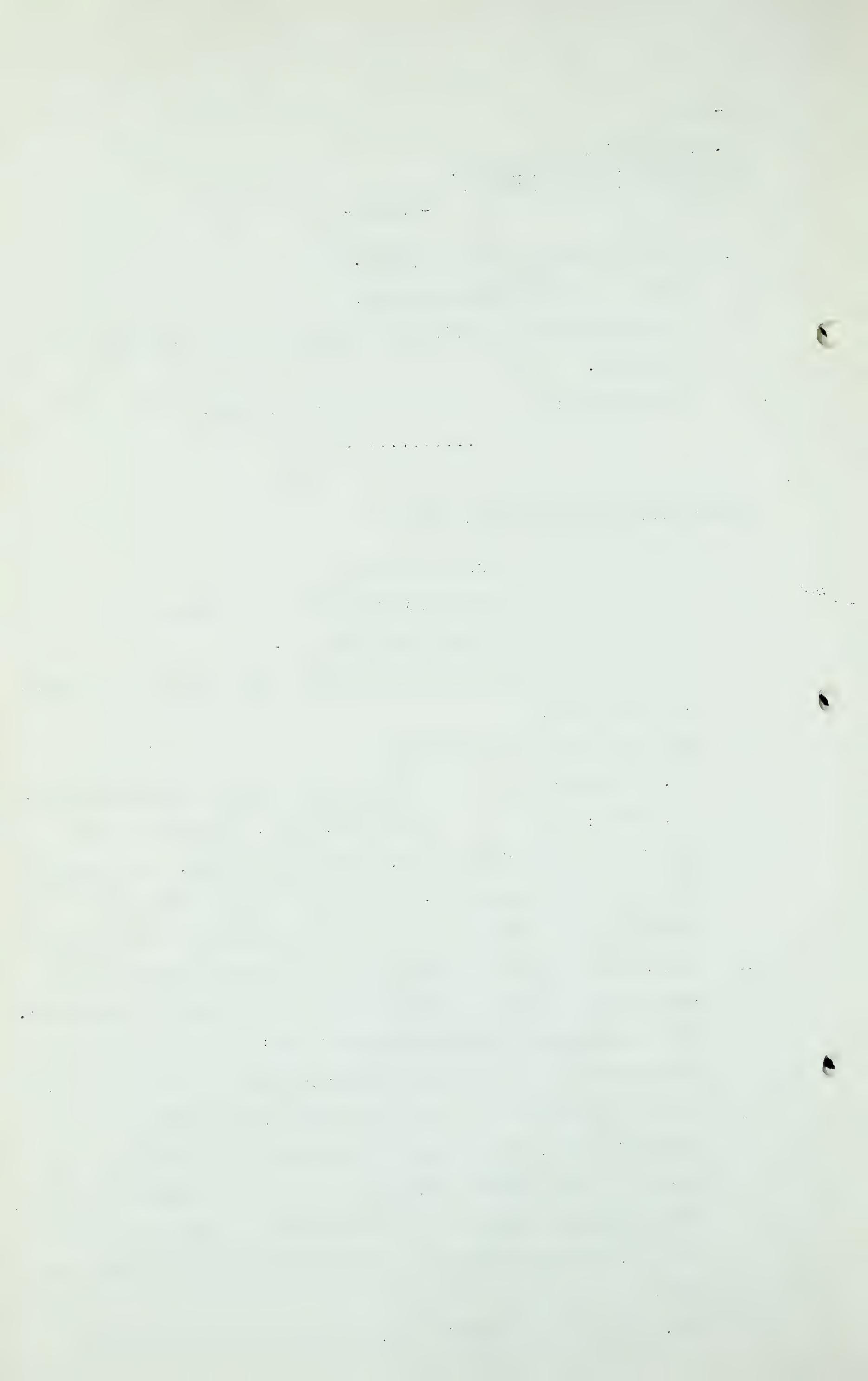
A Did I not file that statement?

MR. McDONALD: The gas delivered is in Exhibit 144.

Q MR. HARVIE: In Exhibit 144, you show for 1944 and '45, and previous years, the gas purchased, and then you show the gas transported. You might be good enough to explain to me what you mean by differentiating in that way?

A Well, gas going to the Imperial Oil Refinery originally was not paid for by the refinery, under any of our rate schedules. It was considered as being Imperial Oil's own Turner Valley gas for which we received a transportation fee and, therefore, it was kept separate. Now, when the Ammonia Plant started to receive gas, it was such a tremendous load and would have thrown all our figures out of line to such an extent that it was considered advisable to treat it in the same way, and, in fact, we simply received a transportation fee in that case also.

Q Yes. And in this Exhibit 144, we will take the year 1945,



F. A. Brownie,
Cross-Exam. by Mr. Harvie.

- 5304 -

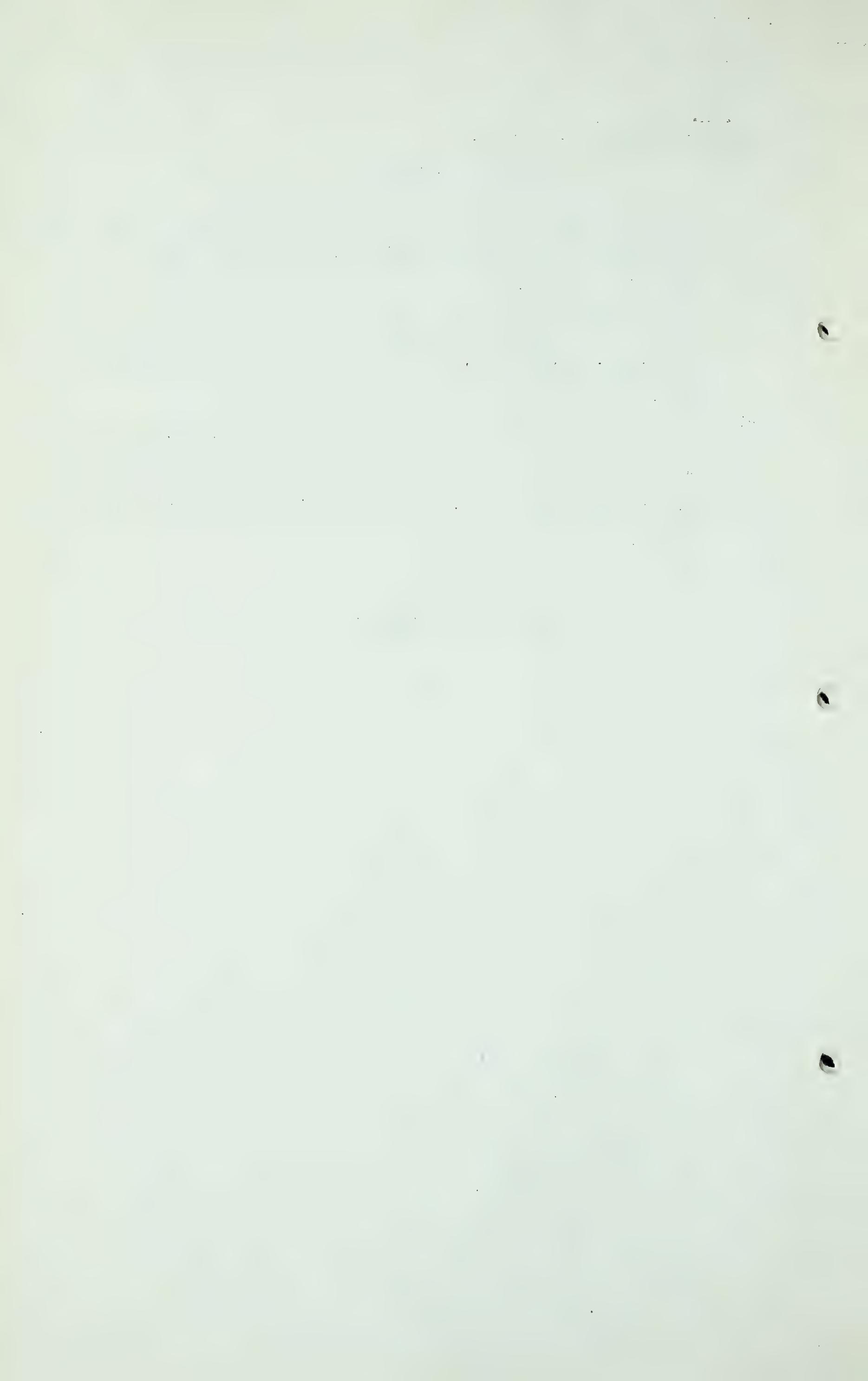
where it shows the gas purchased at 11 billion odd, that would be measured on the basis that you purchase gas?

A That is correct.

Q Then it shows gas transported to the Imperial Oil Refinery of 1,900,000,000 odd, is that figure measured in the same way?

A I think there is a slightly different basis, Mr. Harvie. I think that is the basis provided in our contract with the Imperial Oil Refinery. I think it is on a slightly different basis.

(Go to Page 5305).



F. A. Brownie, Recalled.
Cross-Exam. by Mr. Harvie.

- 5305 -

Q What about the three billion odd?

A As I recall it that is on the same basis with gas purchased.

Q Would you just check that and have those figures correlated?

A Yes.

Q You take delivery of gas, so far as Turner Valley is concerned, at the Scrubber Plant of the Madison Company in Turner Valley?

A Yes.

Q And you sell the gas throughout your entire system?

A That is correct.

Q Is there much of a line loss, or has there been?

A I would not say very much.

Q What would be your estimate?

A I would not care to make an estimate, Mr. Harvie.

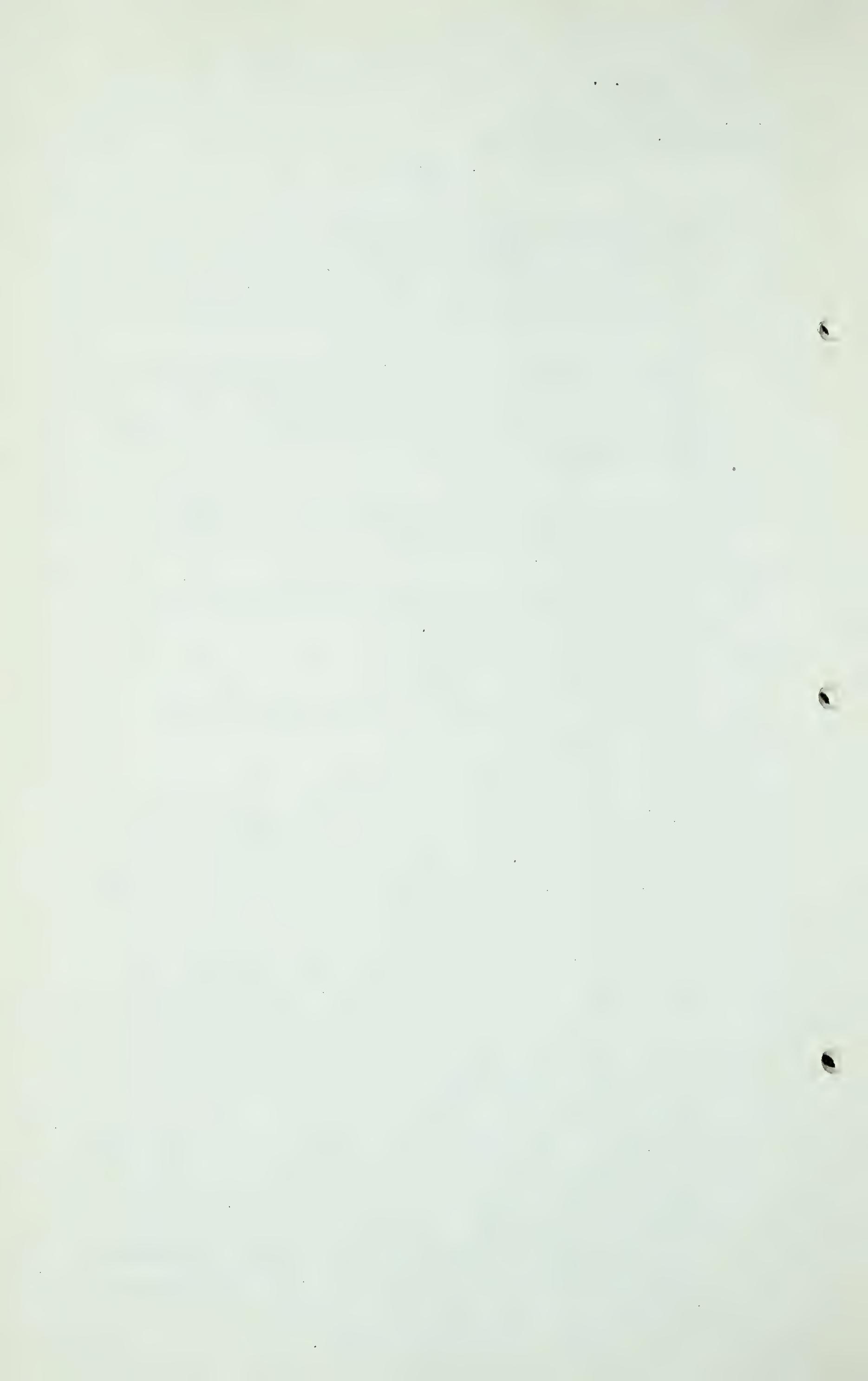
Q Would it be 5% more or less?

A Offhand I would say less than 5%.

Q Now in these figures that we have been discussing where you sell more gas than you buy, as far as the figures are concerned, that is accounted for by difference bases of measurement, as I understand, and I will ask you to assume in round figures that you buy a thousand cubic feet of gas and you sell 10% more, or eleven hundred feet. In other words, you sell 10% more than you buy.

Is there any adjustment made in those figures for the amount of your line losses?

A No, we have a contract for the purchase of gas, Mr. Harvie, which provides the price and the measurement basis and the two are inter-related. The price was $7\frac{3}{4}$. We might just as well have had a price which more closely approximated the price at which we sell the gas, and have a price of 7¢.



F.A. Brownie, Recalled.
Cross-Exam. by Mr. Harvie.

- 5306 -

Q I am not criticizing the basis of your buying and selling but I just want to know how they relate to each other and what is taken into effect in one case as against the other. My question now is whether you sell 10% more gas than you buy after the line loss.

A Yes, if the figures show that.

Q So that actually - and I am asking you to assume these figures.

A Yes.

Q Actually if your line loss was 5%, you actually handle 15% more than you buy.

A That would be approximately correct, yes.

Q I think, Mr. Brownie, when you were in the box last time there were two or three bits of information I asked you to get. One was the gas sales to the Imperial Oil and the Ammonia Plant. I take it that has now been filed?

A Yes, that is included in that Exhibit 144.

Q Then I asked you to be good enough to file a copy of your Edmonton Rate Schedules.

A I am sorry. I read through the evidence and I did not pick that out, Mr. Harvie. I have the Rate Schedules here. I did not prepare a copy to put in. If that is what you want, I will do that. A copy of our present Rate Schedules in Edmonton?

Q Yes. You were also going to see what you could do by way of getting a comparable statement to your Appendix 4, respecting Edmonton and Lethbridge coal values.

A Did you include Lethbridge in that question? I did not realize that either. I have a statement here for Edmonton.

Q Then we will take it for Edmonton.



F. A. Brownie, Recalled.
Cross-Exam. by Mr. Harvie.
Cross-Exam. by Mr. McDonald.

- 5307 -

DOCUMENT IN QUESTION NOW
MARKED EXHIBIT 145.

A Mr. Harvie, in connection with that Exhibit we have coal prices given to us by the Edmonton Chamber of Commerce, which may be interest. Lump coal, \$4.90 a ton delivered. Nut coal, \$3.65 and Stoker coal, \$3.40.

MR. HARVIE: I presume there is no necessity of reading this Exhibit 145 into the record?

THE CHAIRMAN: Oh no.

MR. HARVIE: That is all, thank you.

THE CHAIRMAN: Mr. McDonald?

.....

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. McDONALD.

Q You read into the record, Mr. Brownie, the sales per m.c.f. of the Canadian Western system and the revenues for each classification, that is for the years 1939 to 1944.

A Not the revenues, Mr. McDonald, not the revenues per m.c.f.

Q No, the revenues per classification.

A Yes.

Q The sales are by classification too.

A Yes.

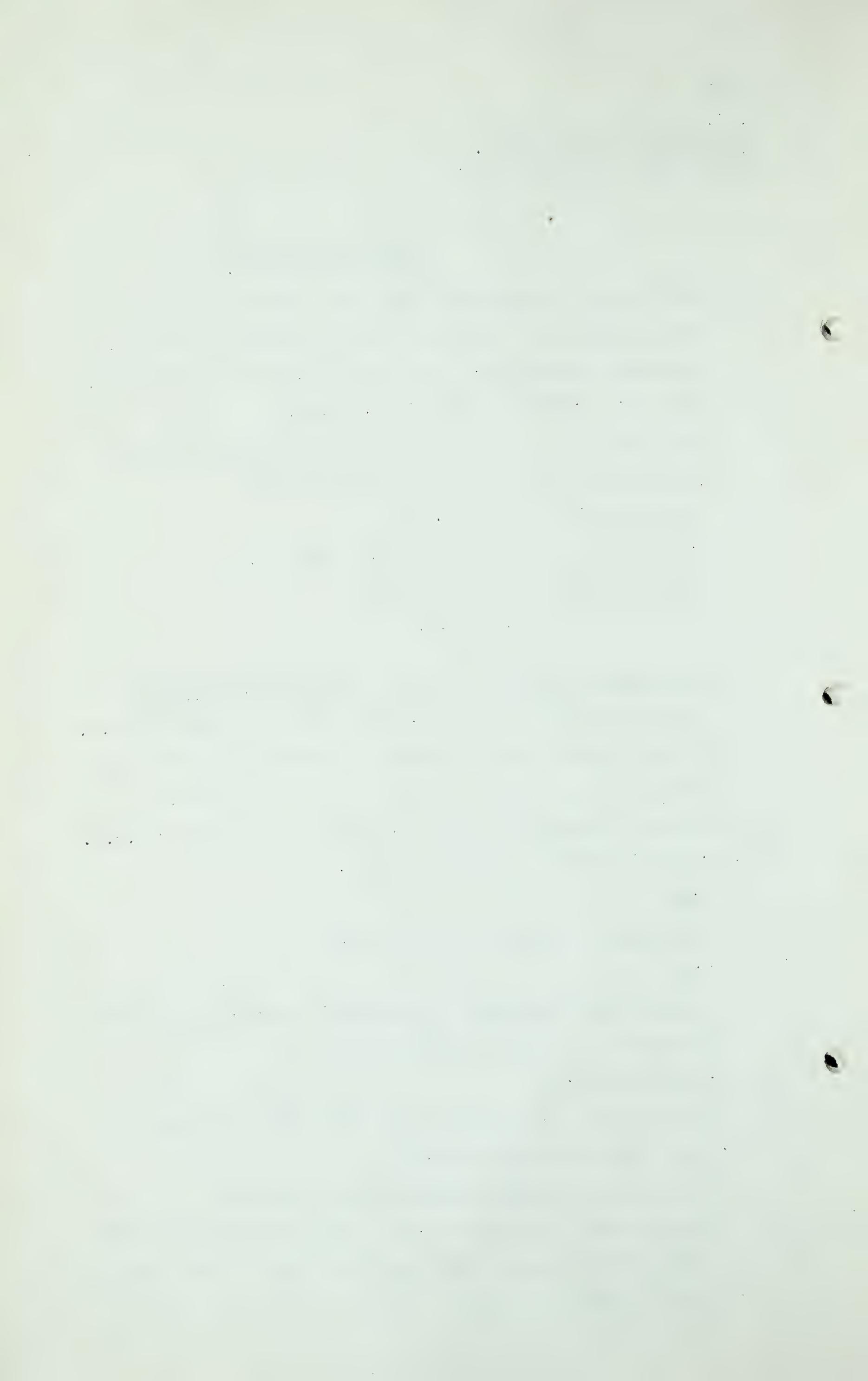
Q Now you have the number of customers in each classification and you then have the average revenues.

A That is correct.

Q Per customer, and you also have the average revenue per m.c.f. by calculating it out.

A You mean the average consumption per customer.

Q Consumption per customer, yes. Now can you give me the information, similar information for each of the years 1932 to 1944?



F. A. Brownie, Recalled.
Cross-Exam. by Mr. McDonald.
Cross-Exam. by Mr. Chambers.

- 5308 -

A I could.

Q I would like to have that. And you might have given it to me prior to this date, the number of customers in each classification.

A I think I did give you that, Mr. McDonald.

Q Include that in the same statement.

.....

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. CHAMBERS.

Q Would it be very much trouble to segregate Calgary from the rest of the system?

A You mean you want a statement for Calgary along that line?

Q Yes. This is your total.

A Yes.

Q I am wondering if it would be very much trouble to break that down into two parts, Calgary consumption and other consumption.

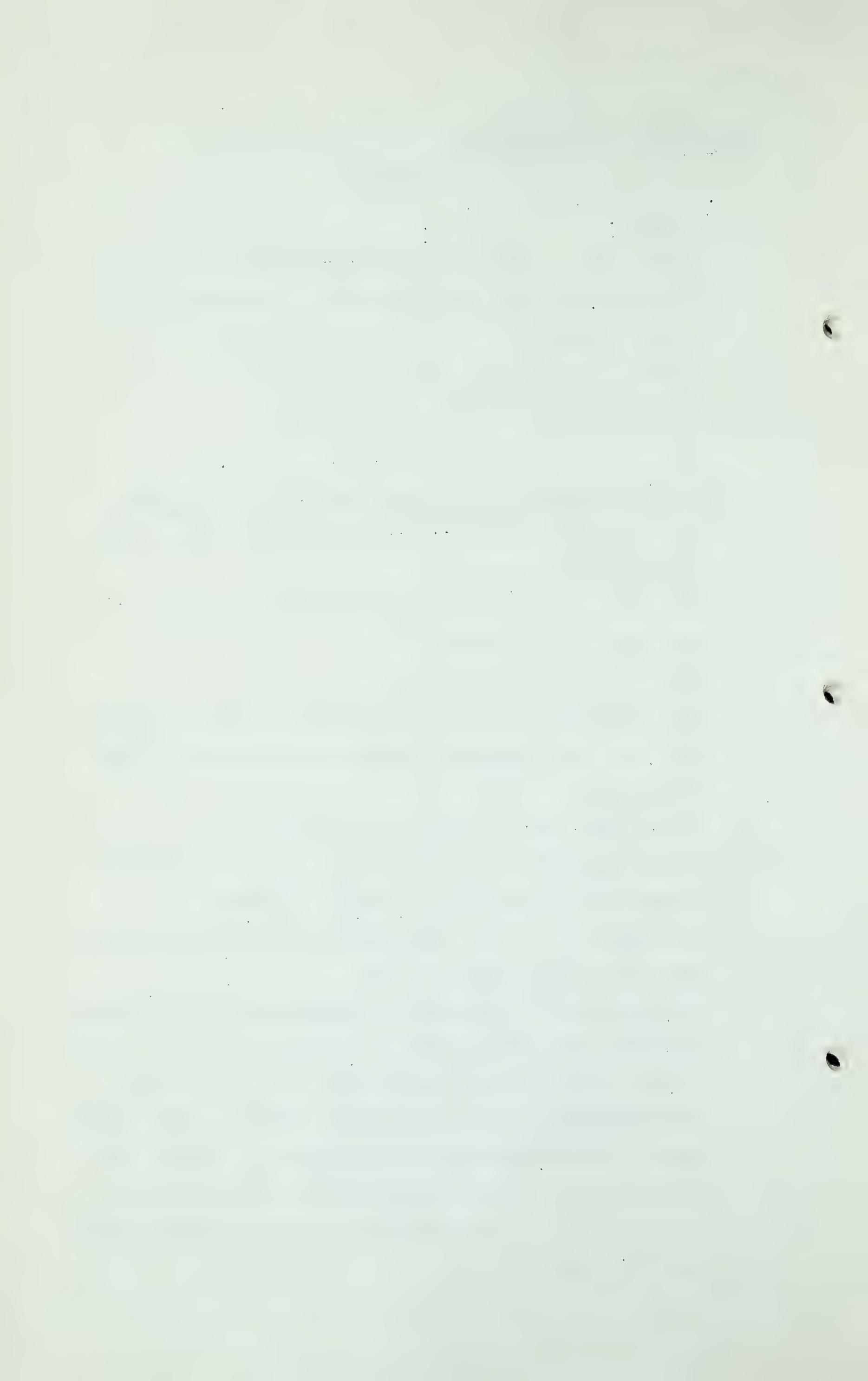
A I think that could be done, Mr. Chambers.

Q I would appreciate it if you could do that, Mr. Brownie, and incorporate it in what Mr. McDonald is asking for.

MR. STEER: You had better warn the gentlemen how much time this is going to take.

A Mr. Harvie asked me for some information as to the number of minimum bills each month. We can get that, Mr. Harvie, if you want it, but we have to count them. I imagine there might be twenty or twenty-two thousand in the summer months. That just means that we have to go through them and count them. There is no other way of getting that.

MR. HARVIE: Well just an approximate number would answer my question.



F.A.Brownie,
Cross-Exam. by Mr. Chambers.
Cross-Exam. by Mr. Blanchard.

- 5309 -

THE CHAIRMAN: Frankly, I do think there should be a limit to the amount of information that Mr. Brownie should be asked to dig up. When he comes back the next time and gives us information, I hope nobody will have a brainwave and think of something else to ask him. In other words, there should be a limit to what a witness is supposed to do.

MR. BLANCHARD: I suggest Mr. Brownie has other duties besides digging up this information.

THE CHAIRMAN: I am inclined to think he has.

.....

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. BLANCHARD.

Q I asked Mr. Steer if he could prepare similar information with respect to Lethbridge. That was asked for some time ago.

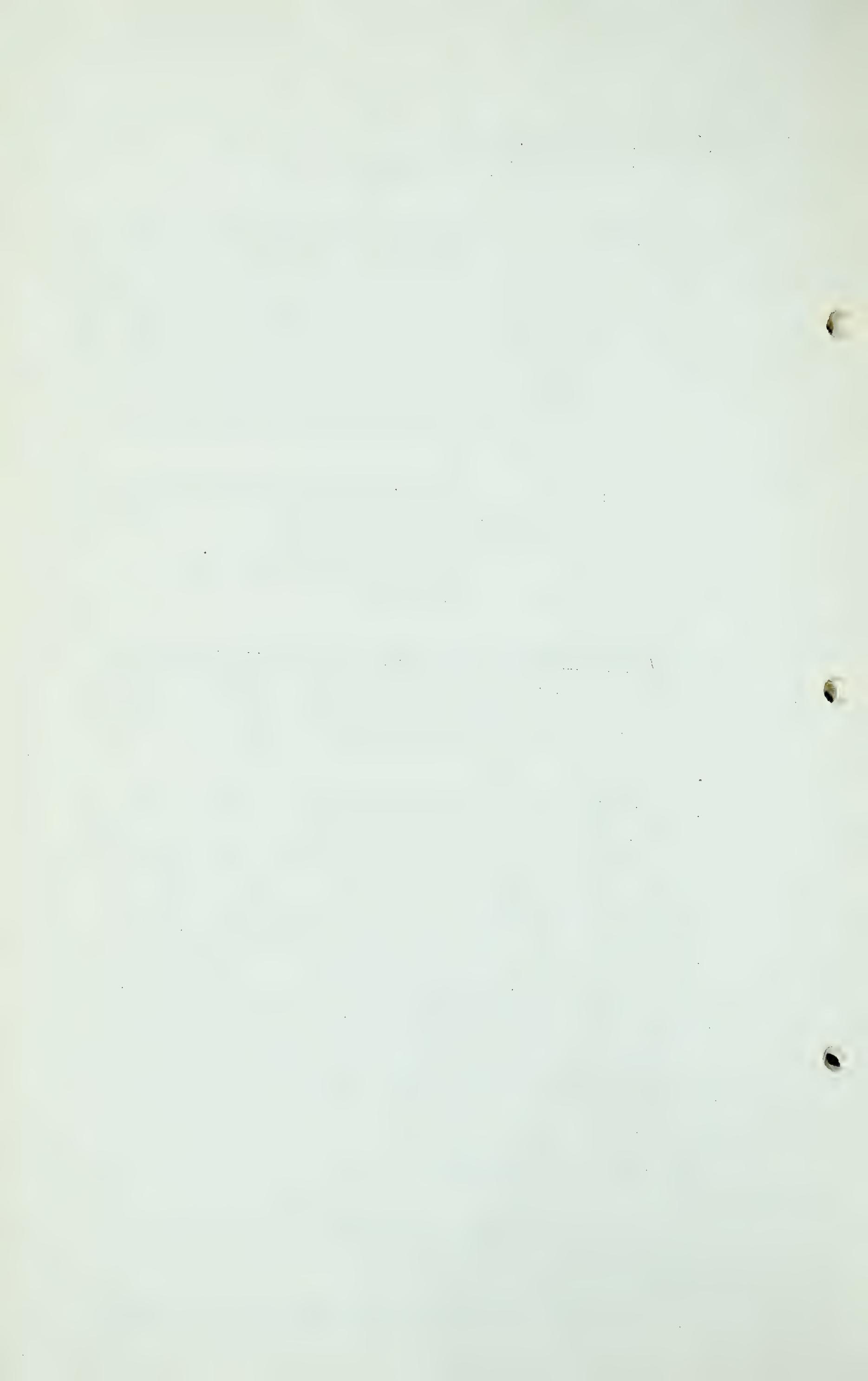
A Yes. That information has not been prepared either. It is more difficult to get this information than the information for the entire system and it is more difficult to get this information than the information for Calgary, because we do not keep the Lethbridge system separate at all. We can get it, but it means we have to go back and dig into the old records to get it. It means hundreds of figures and our Accounting Department is trying to get its books closed for last year and it has been impossible to get it.

Q That will take some time?

A Yes.

Q I do not want the number of customers taking minimum quantities of gas.

A No, but we do not keep our Lethbridge records separate.



F.A. Brownie, Recalled.
Cross-Exam. by Mr. Blanchard.
Cross-Exam. by Mr. Fenerty.

- 5310 -

Q I wondered to what extent the market is saturated in Lethbridge, that is for domestic purposes. Is it saturated to the same extent that the market is in Calgary? That is have you reached the practical saturation point?

A That is a rather difficult question to answer, Mr. Blanchard.

Q Well if you cannot answer it, all right. That is one of the questions that I had in mind.

A Yes.

Q Because Lethbridge is a place where coal is inside the City limits as I understand it. There is a mine.

A Yes. As to saturation along our pipe lines in Lethbridge, I do not think that is very far off the saturation in the City of Calgary. Beyond our pipe lines, I do not know. I did not have any information on the City of Calgary except what I got out from the census figure and there are no similar census figures for Lethbridge, not that I have seen.

Q Well then, you have found that you were unable to get the information I had asked for.

A At this time, Mr. Blanchard. We can get it. That means a lot of digging.

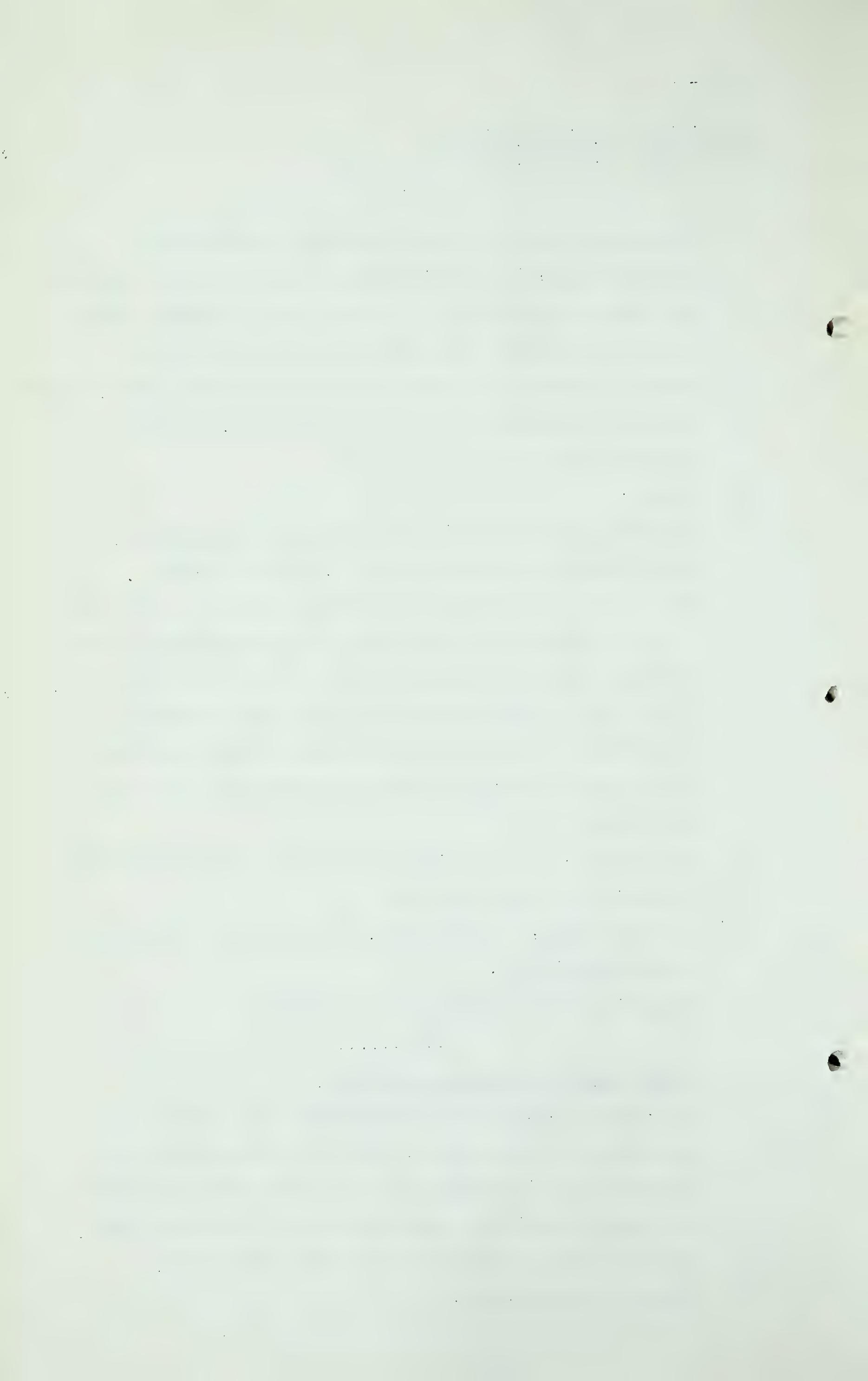
Q Then we will see whether it is necessary.

.....

CROSS-EXAMINATION BY MR. FENERTY.

Q Mr. Brownie, when we were discussing this question of saturation of the market, I take it that what you are referring to is saturation in the sense that the number of users who might be expected to use it are using gas. You are dealing with numbers and not quantities.

A That is correct, sir.



F. A. Brownie, Recalled.
Cross-Exam. by Mr. Fenerty.
Exam. by Mr. Steer.

- 5311 -

Q I suggest to you, when you talk about saturation as far as the use of gas is concerned, we should also consider the possible additional volume of use perhaps by reason of the lowering of the price of gas.

A Yes.

Q Or an increase in the price of coal and so on?

A Yes.

Q So that you do not suggest there is any saturation so far as the volume in the ground and the number of users . . .

A That is correct.

.....

EXAMINATION BY MR. STEER.

Q With regard to saturation I think the figures show that the Calgary market is around 92%, is that right?

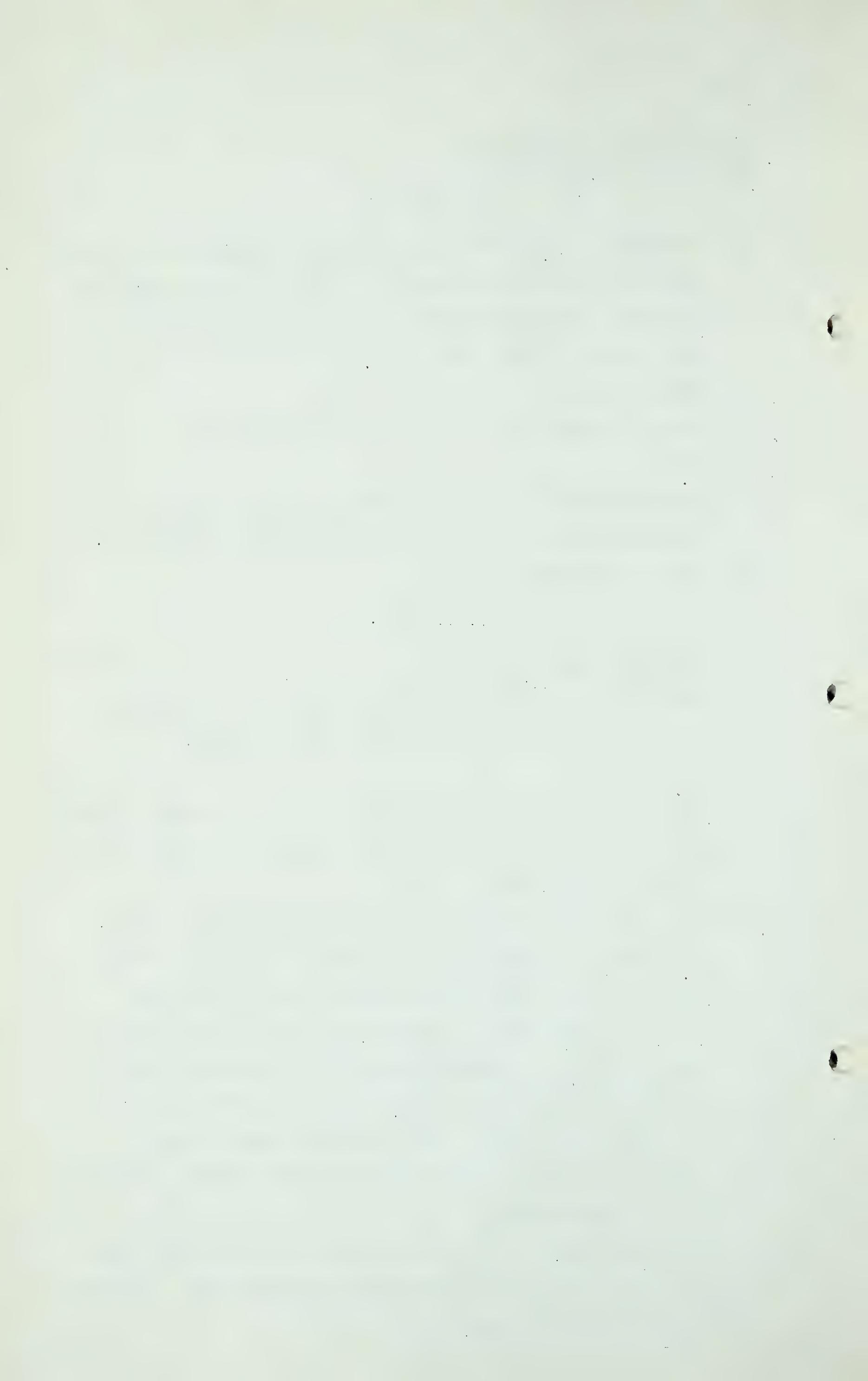
A Yes.

Q And in making that statement, do you refer to the customers who are along the lines or do you refer to the whole population of the City?

A Well I made the statement when I was first on the stand, Mr. Steer, of saturation and I think it was around 92%. That was taken from Dominion Census figures and they refer to everything in the City, whether it was along our lines or not. You might have another saturation figure of customers along our lines. I have forgotten just what the figure is on that. Then you might have a third saturation figure involving the ratio of heating customers to total customers.

Q BY MR. HARVIE: If it was customers along your lines, the saturation would be increased above the 92%, I presume.

A Yes, I would think so.



F.A. Brownie, Recalled.

- 5312 -

Q THE CHAIRMAN: Anything further? Thank you, Mr. Brownie. You will try to get the information these gentlemen wish?

A Yes.

Q I hope you will not inspire any further ideas.

MR. CHAMBERS: Arising out of some questions that I asked Mr. Hamilton some time ago in connection with his recommended rate base, I had certain discussions with him and asked him to check further items on my clients' books and I would like to pursue that matter further with Mr. Hamilton as he is here today. For that reason, I would suggest that Mr. Hamilton proceed before Mr. Davies because it may be more convenient for him.

MR. BLANCHARD: Mr. Hamilton was asking if we would start before the recess. We do not have one now?

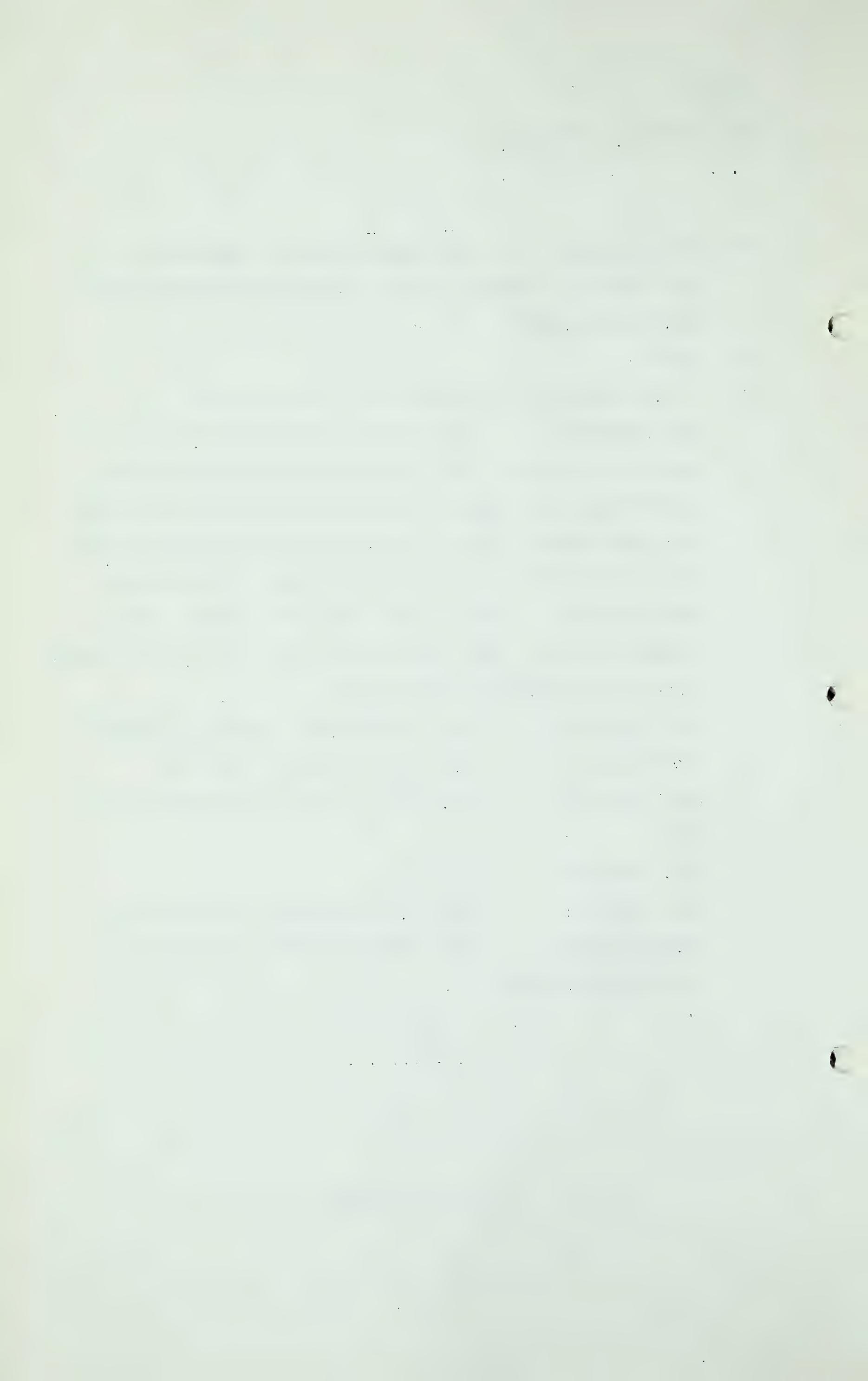
THE CHAIRMAN: Not until 12 o'clock unless he wants one.

MR. HAMILTON: No, sir.

MR. HARVIE: Will we be sitting this afternoon?

THE CHAIRMAN: Yes, unless we have finished by 12 o'clock of course.

.....



Robert W. Hamilton,
Cross-Exam. by Mr. Chambers.

- 5313 -

ROBERT WINSLOW HAMILTON, having been recalled, Cross-examined by Mr. Chambers:

Q Mr. Hamilton, in your Exhibit 125, you recall that Exhibit 125 I take it, which was the Exhibit where you made the recommendation as to the rate base, do you remember that?

A Was Exhibit 125 the recapitulation or was it the discussion arising from it?

Q No, Exhibit 124, as I understand it, was this (indicating), and Exhibit 125 was this (indicating).

A There was another set of inserts, though, they were incorporated as part of Exhibit 124.

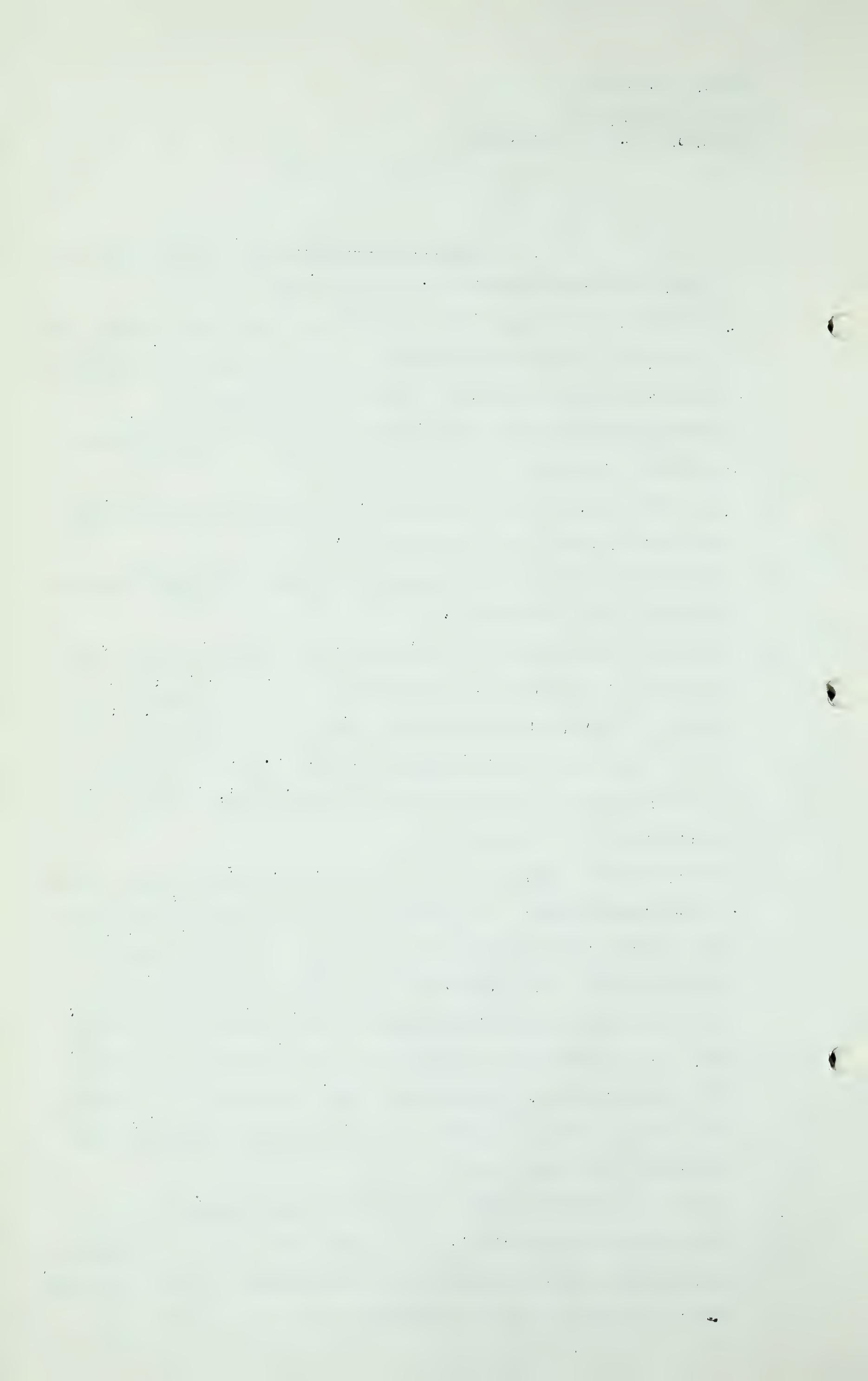
Q Yes, as I understand it in Exhibit 125 and which by the way is referred to in Volume 47, Page 3648 of the transcript, you state in effect that generally speaking you recommend to the Board a rate base for Madison of \$1,573,688.00, which was listed in Page or Statement WH-A of Exhibit 124, is that substantially the situation?

A The statement WH-1A, the figure was \$1,573,668.00 and I believe in our discussions I inclined to the view that, whether or not you selected that particular rate base or the one immediately preceding it of \$1,607,468.00 would depend upon what conclusion the Board arrived at with regard to the treatment of salvage.

Q Yes. Now at that time or when we first discussed the matter, as I understood it, you held or were inclined to the view that an allowance for going value was not perhaps necessary, was not that your first view?

A I was at that time and still am of an open mind.

Q That is as I recollect it, and later after we had had certain discussions and certain matters were brought to your attention, you indicated you had an open mind?



Robert W. Hamilton,
Cross-Exam. by Mr. Chambers.

- 5314 -

A Yes. Certainly it was a point on which I was not, or would not care to express a view.

Q Yes. Now this recommended figure, and I am talking of the \$1,573,688.00 is interchangeable with the other one which you just gave us of \$1,607,468.00 ?,

A Yes.

Q And was in respect to the plant and equipment and was exclusive of working capital and rate hearing expenses, if that was to be taken care of ?

A Excluding going value, advance Girbotol royalty and working capital.

Q Yes, and that figure consisted of adjusted historical costs less the computed depreciation computed on the basis of past and future throughput ?

A Yes.

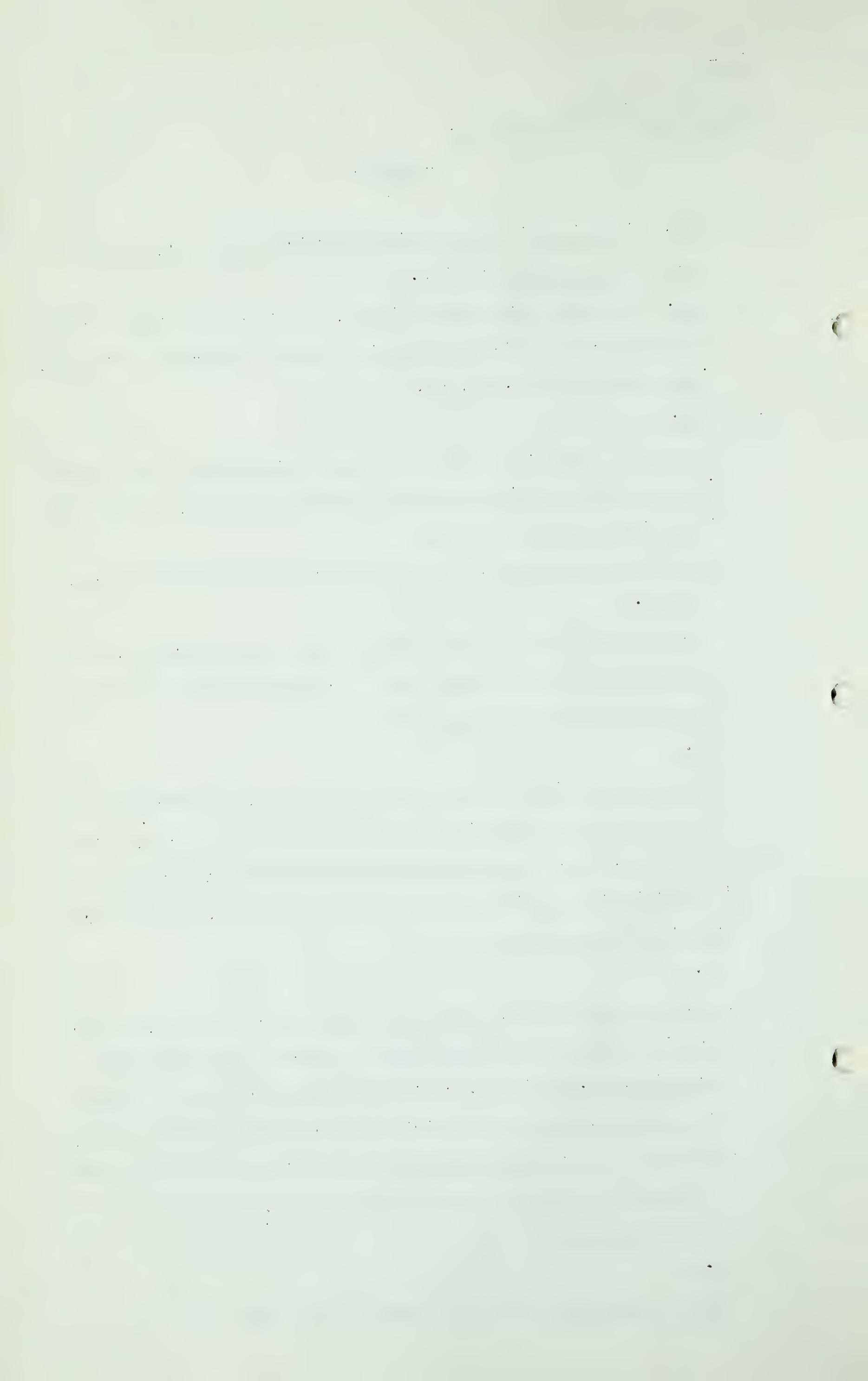
Q Now then, you will recall, and I will give the reference for the purposes of making it more convenient when we read this part of it, that we had certain discussions as to items which I brought to your attention of nominal amounts, one dollar and two dollars and so on ?

A Yes.

Q And those discussions, for the purposes of the record, will be found in Volume 49 at Pages 3837 to 3848; following that discussion, Mr. Hamilton, certain representations or figures were presented to you by officials or counsel of the company, on which the company suggested that additional amounts should be included as part of the historical costs, is that a fair way of putting it ?

A Yes.

Q And I understand that you recently made some check for



Robert W. Hamilton,
Cross-Exam. by Mr. Chambers.

- 5315 -

examination of the Company's books and statements with respect to those items ?

A Yes.

Q And a statement has been prepared, of which you have knowledge ?

A Yes.

MR. CHAMBERS: I would like to present that as an Exhibit.

STATEMENT PRODUCED HERE MARKED
AS EXHIBIT 146.

Q MR. CHAMBERS: In this Exhibit 146, Mr. Hamilton, on the page entitled "Group A" there are items there totalling, on the basis of Mr. Hill's replacement cost, \$18,055.28 and as I understand it in the historical figure that appears as \$49.00 ?

A That is correct.

Q Those would be gross, would they not ?

A Yes.

Q Not depleted ?

A Yes.

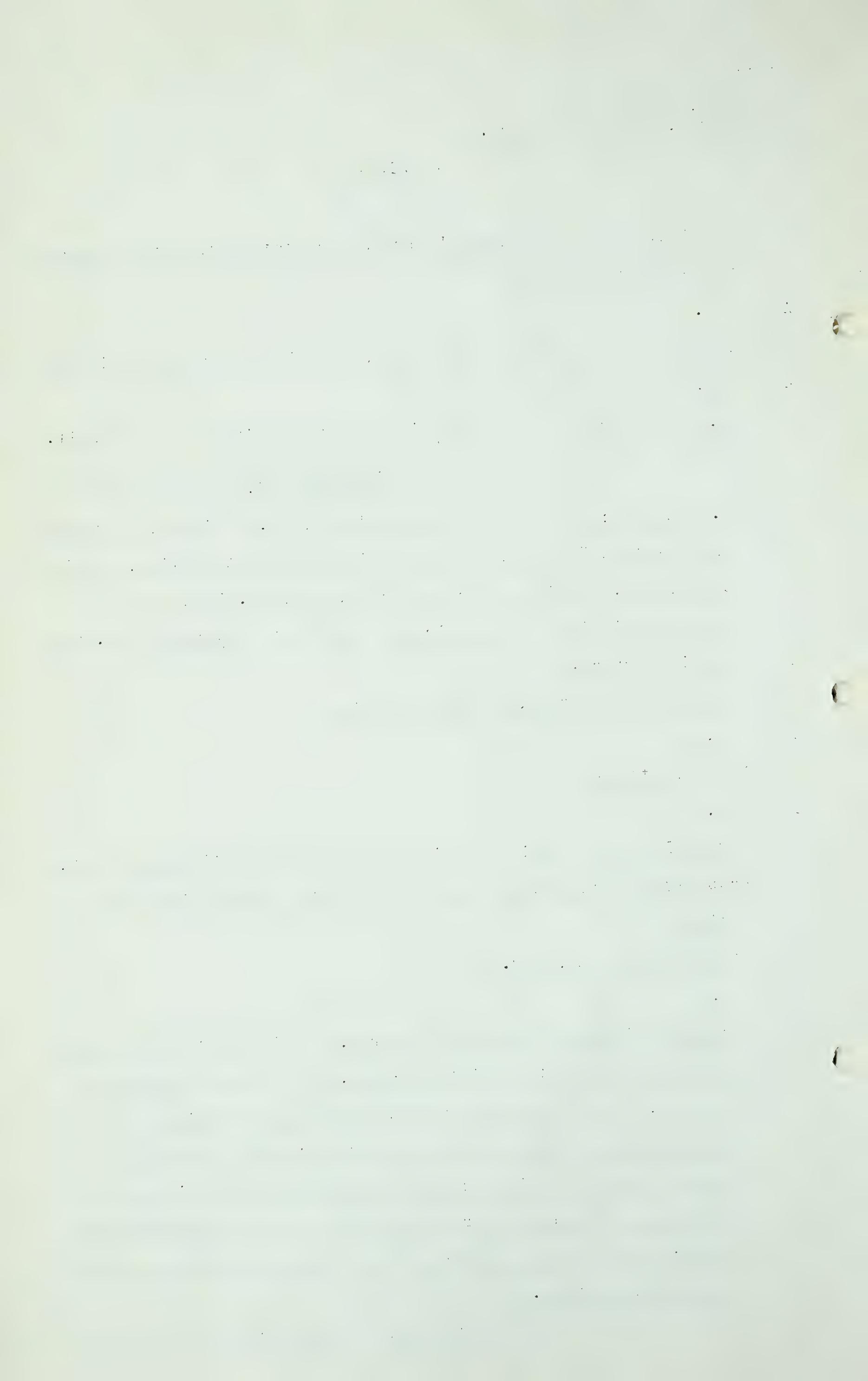
Q Now would you just, in the light of your examination and so on, probably it would save time if you would deal with the whole Exhibit ?

A It probably would, sir.

Q Yes.

A Perhaps I might preface these remarks, in view of the evidence which was taken at the point which Mr. Chambers mentioned in Volume 49, this question of a possible under valuation on a historical cost basis of the plant presently in service by the Madison Company and discussed by ourselves and officials of the Company possibly a year ago when we were completing our historical costs survey, there were a number of factors which required disposition.

One of those was this particular matter



Robert W. Hamilton,
Cross-Exam. by Mr. Chambers.

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which we raised, and there were others, and we, with the officials of the Company, canvassed the probable effect and relationship of the two sets of factors which were operating in opposite directions; one set of factors were those which tended to underestimate the historical costs, and another set of factors which tended to overstate the historical costs, and it was true then and it is true now that with regard to practically all of the factors which were then considered it was almost impossible, certainly impractical, to assign a specific value to the individual item and as a result of our discussions it was agreed at that time that the two sets of factors would be deemed to offset each other.

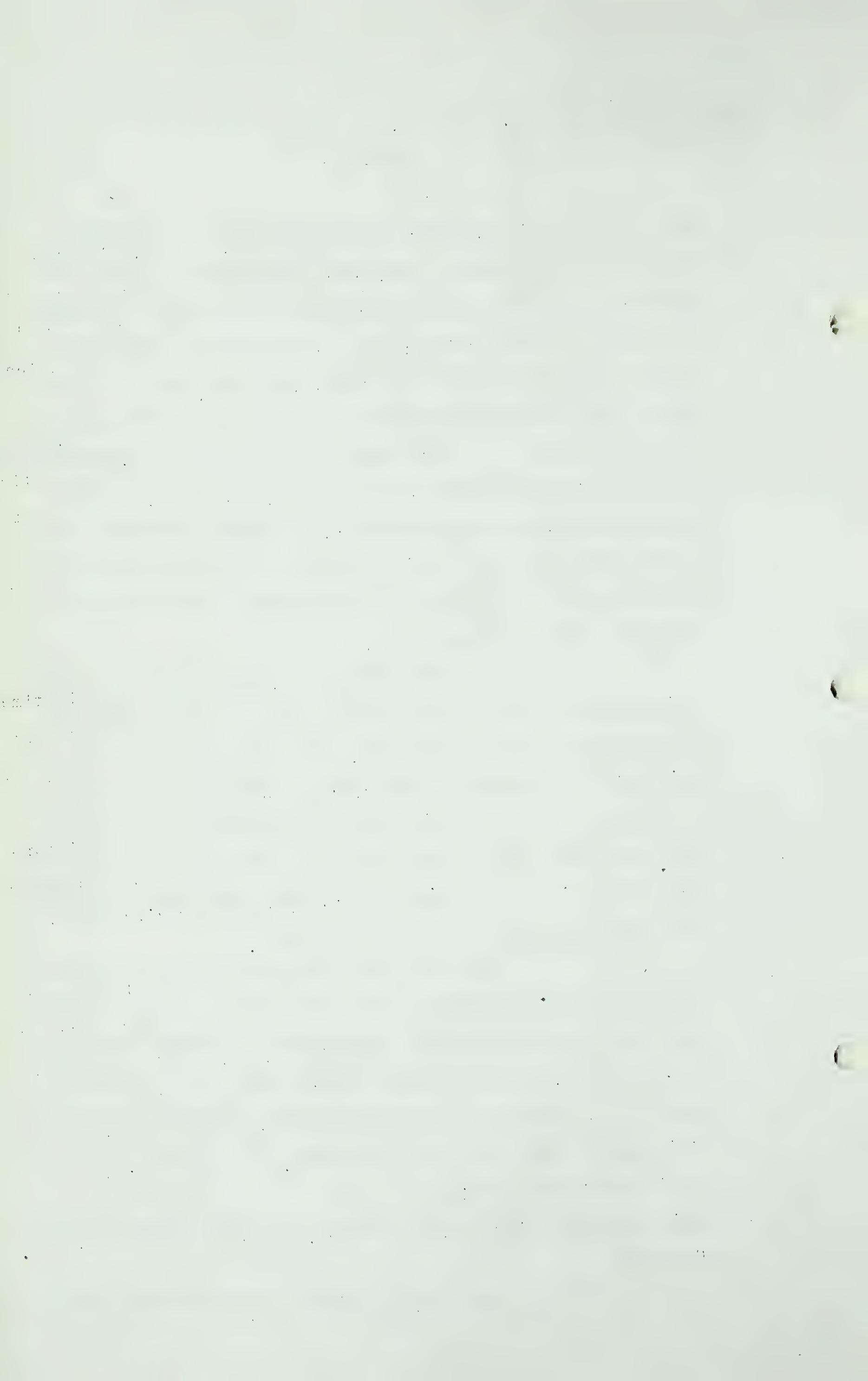
I think perhaps I should say at this time, in fairness to the officials of the Company, when I say this conclusion was reached, that they were not attaching the same importance to historical costs then as perhaps they are now and perhaps also that they attached less importance to historical costs than did we and it may have been that they conceded something to us at that time which under other circumstances they might not have been prepared to do.

Now then the officials of the Company or employees of the Company have prepared for us a list of items which they thought should be considered and I think perhaps, Mr. Chambers, that that original list should go in because it deals with a number of these items in greater detail than does this summary which was later prepared. In any event - -

Q Is it not the same thing?

A This is my grouping of these things. (Produces document to Mr. Chambers).

The list of items prepared by the Company



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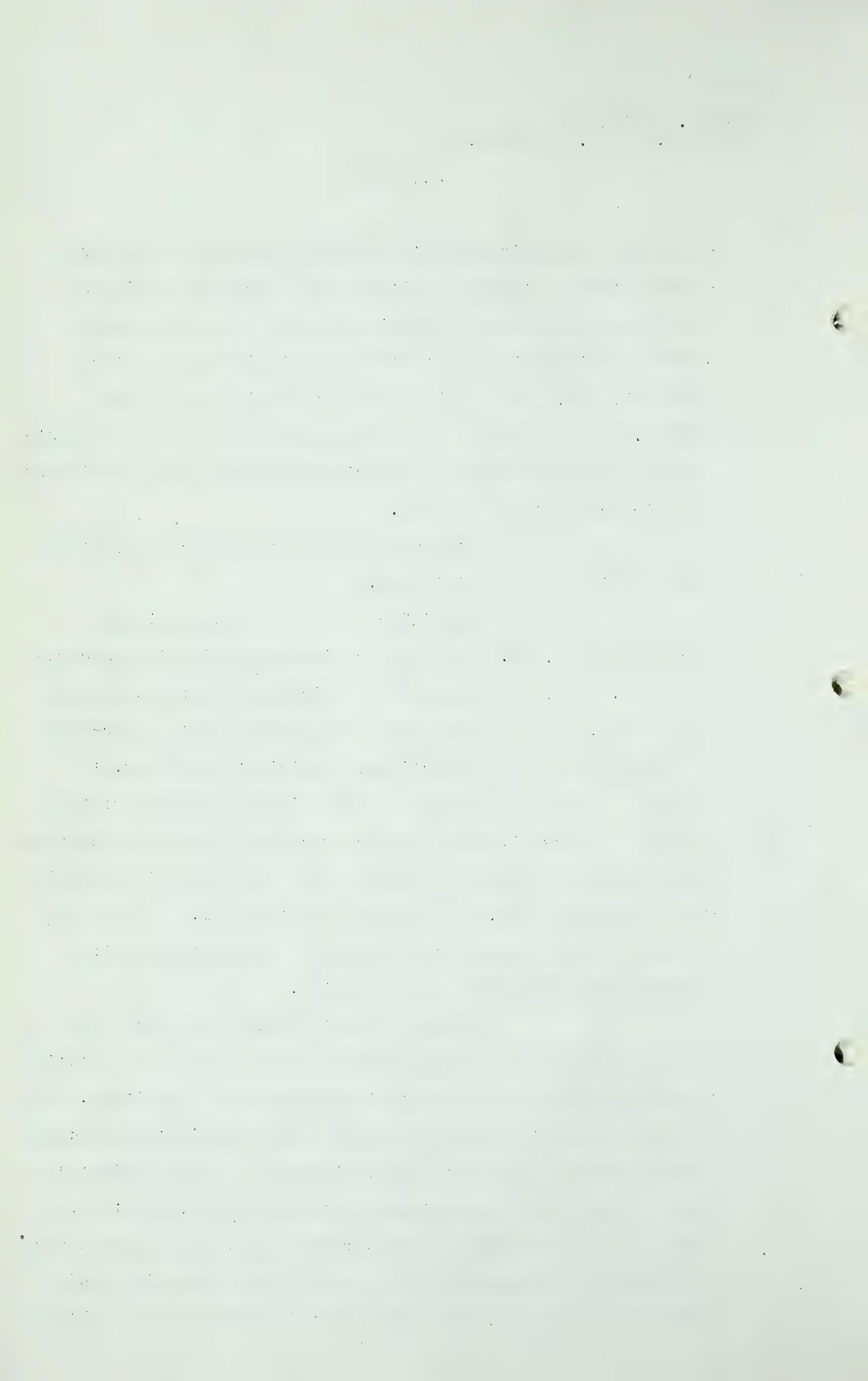
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comprised on the first draft some nine pages and after our consideration of them we invited them to regroup the items therein suggested on a form which would lend itself more readily to discussion and that is the significance of the group "A", "B", "C", and "D" which appear in the present Exhibit. The grouping was our suggestion and I am not suggesting now that the Company necessarily conceded that there is any significance to that grouping.

Furthermore the order in which they are presented is of no significance.

Group "A" comprises a group of items aggregating \$18,055.28 at gross replacement valuations according to Mr. Hill, as compared with which the record value was only \$49.00. Those items have been grouped together because we were shown a few transactions, sufficient in number, to satisfy us that it probably was the uniform procedure of the Company to charge items of this character in operating expenses and that would suggest the reason why they are not included in the historical costs. We did not find them all. I doubt if we could find them all but a course of treatment was fairly evident from that which we did examine.

If these items in Group "A" stood alone and there were no offsetting factors we would have no hesitation in recommending an adjustment with respect to those items. The nature of the adjustment would be to take the eighteen thousand dollars gross replacement value, discount it by approximately 25%, to get back to approximate historical costs, add the 9% which we have recommended for overhead and then discount again in respect to depreciation by approximately 27%, which would mean that the dollar, for each dollar included in the eighteen



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thousand dollars , that was presented, considering the change in our historical costs rate base, net would amount to sixty cents.

Q MR. BLANCHARD: By the way, the reduction of 25% from reproduction costs is based on Mr. Hill's figures ^{his} in argument ?

A Yes. My understanding of it was that the price level had advanced in 1943 as compared with the average level of prices during the period of the whole construction of the plant.

Q MR. STEER: Is there any question as to that pipe fuel lines ?

A Beg your pardon, Mr. Steer.

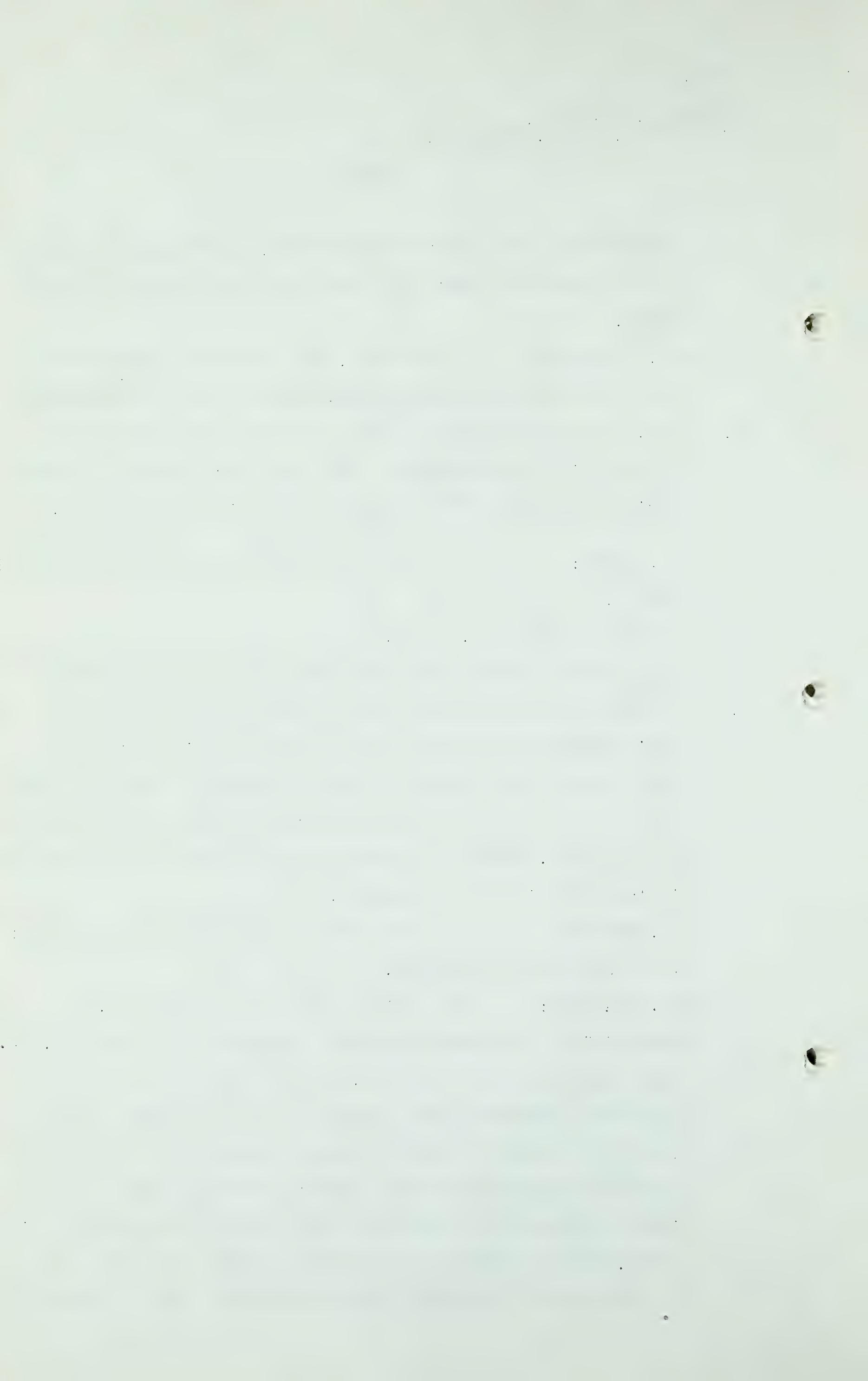
Q Do you know anything about the costs of these fuel lines ?

A We were not able to find in the records of the Company the entire disposition of that total length of pipe but we were shown where it was customary for the Company to expense extensions of that type and that suggestion was the explanation why it was in Mr. Hill's valuation but did not appear to be present in the historical costs records.

MR. CHAMBERS: I do not want to interrupt you there, but that is the cost installed.

Q MR. CHAMBERS: All right, you might go on then.

A Group "B" is a much more important section and totals \$78,075.16 with a record value of \$7,385.88, with the result that the suggested adjustment would amount to the difference between those two figures, or about seventy thousand dollars, subject to the same adjustments that I mentioned with regard to the items in Group "A", so that if those items were considered in total, the net effect on the historical cost rate base would be approximately forty-two thousand dollars, that is 60% of



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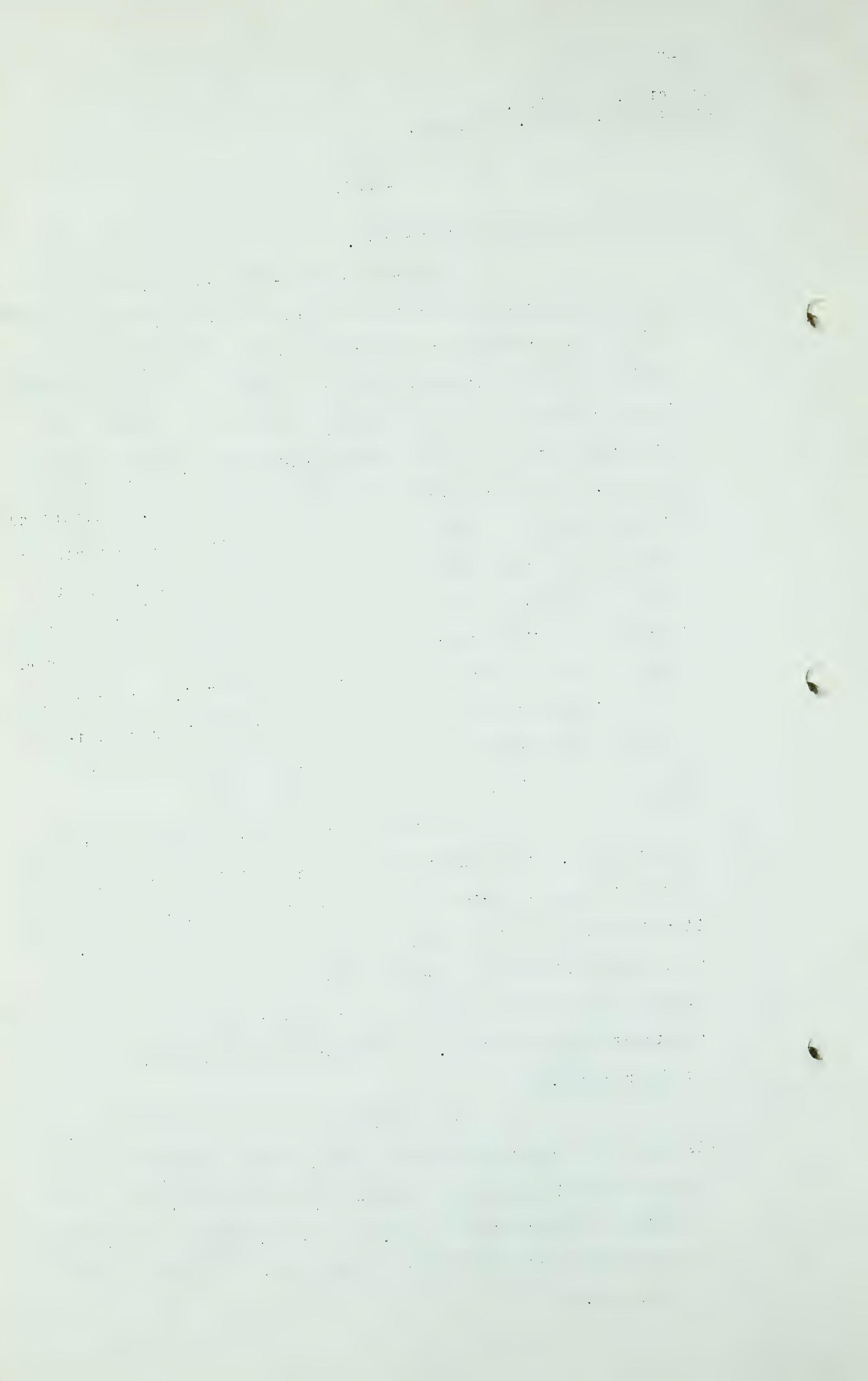
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the amount of the difference.

The reason why those items have been collected together in this group is that they represent items which are, according to our information, presently in the Madison service but which Royalite suggests are not included in the present historical costs, although no evidence was produced as to where the costs originally incurred had been charged. In other words, the equipment is there. Undoubtedly at some time the money was spent but despite such efforts as were made by employees of the Company they are not able to show us where the money that was spent was charged in their books in the first instance and that is the essential difference of the items in Group "A" and Group "B", - that they gave us indications of a course of treatment in regard to the items of Group "A" but were unable to do so in regard to items in Group "B".

I believe it is proper to say at this time that Mr. Stevens-Guille or other officials or employees of the Company can give us the historical account of what the item is and where it came from and how it came to be in its present location but nobody seems to be able to tell us or show us where the dollars paid out in the purchase or the construction of the item, were originally charged in the Company's records.

That absence of definite information gives rise to a reservation on our part because, depending upon where the original cost was charged, the propriety of the present adjustment will depend. Theoretically the original cost of any or all of those items may be included in one of three places.



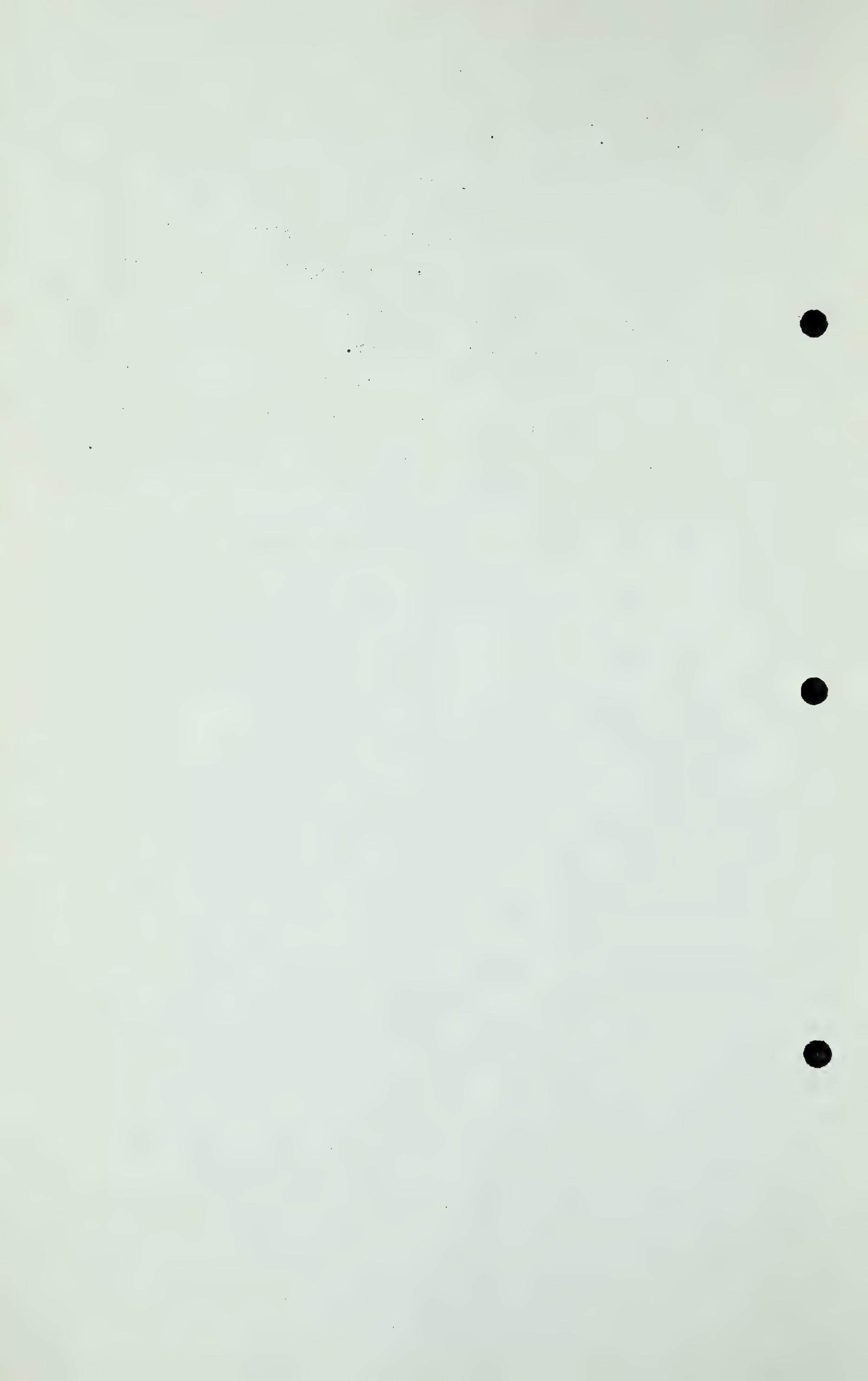
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It might have been written off to the expense account of the Royalite Company in past years and consequently has tended to reduce the profits of some of those operations in that particular year.

Or secondly it might have been capitalized as an element of the historical costs of the plant which is still in the custody or ownership of the Royalite Company.

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Or, thirdly, it might conceivably have been included in the cost of something which is in the total cost of the plant which is now owned by the Madison Company.

Q MR. FENERTY: Just there, may these have been written off and charged to expense account. Have you no evidence one way or the other?

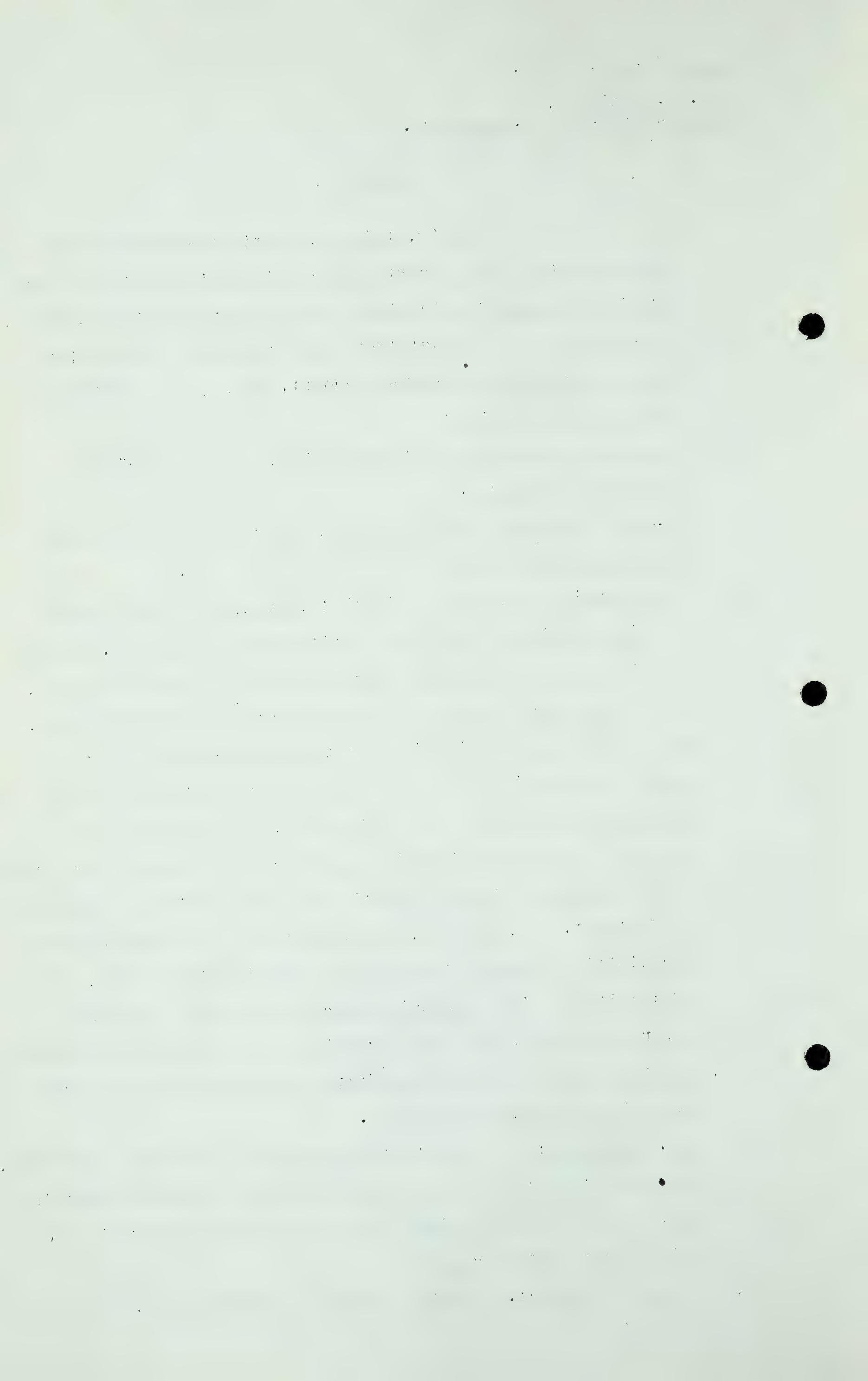
A We have no evidence as to where items in Group "B" were originally charged.

Q And are they items which you say might properly be written off as against expense?

A I am making no statement in that regard, but I say they may be items which may have been written off to expense. It may be that some of these have cropped up since our discussion, but I am speaking now as to our interview of last Saturday. Now if the explanation is that they were charged off to expense by Royalite in the past year then I think perhaps the Company is entitled to an adjustment. If they have been charged off to the historical costs of plant which is retained by the Royalite Company likewise they are entitled now to an adjustment. If, however, the dollars that were spent in the acquisition of these things or the fabrication of them has found its way into something which has already been taken over by Madison, then the exclusion of the dollars represented by the value of these things is totally offset by the valuation that is due to something else.

Q MR. BLANCHARD: And that last branch - while you are there, you mean that the cost has been taken into something that is now turned over to Madison and which already appears in your historical costs figure?

A That is correct. I think I should emphasize this. It is



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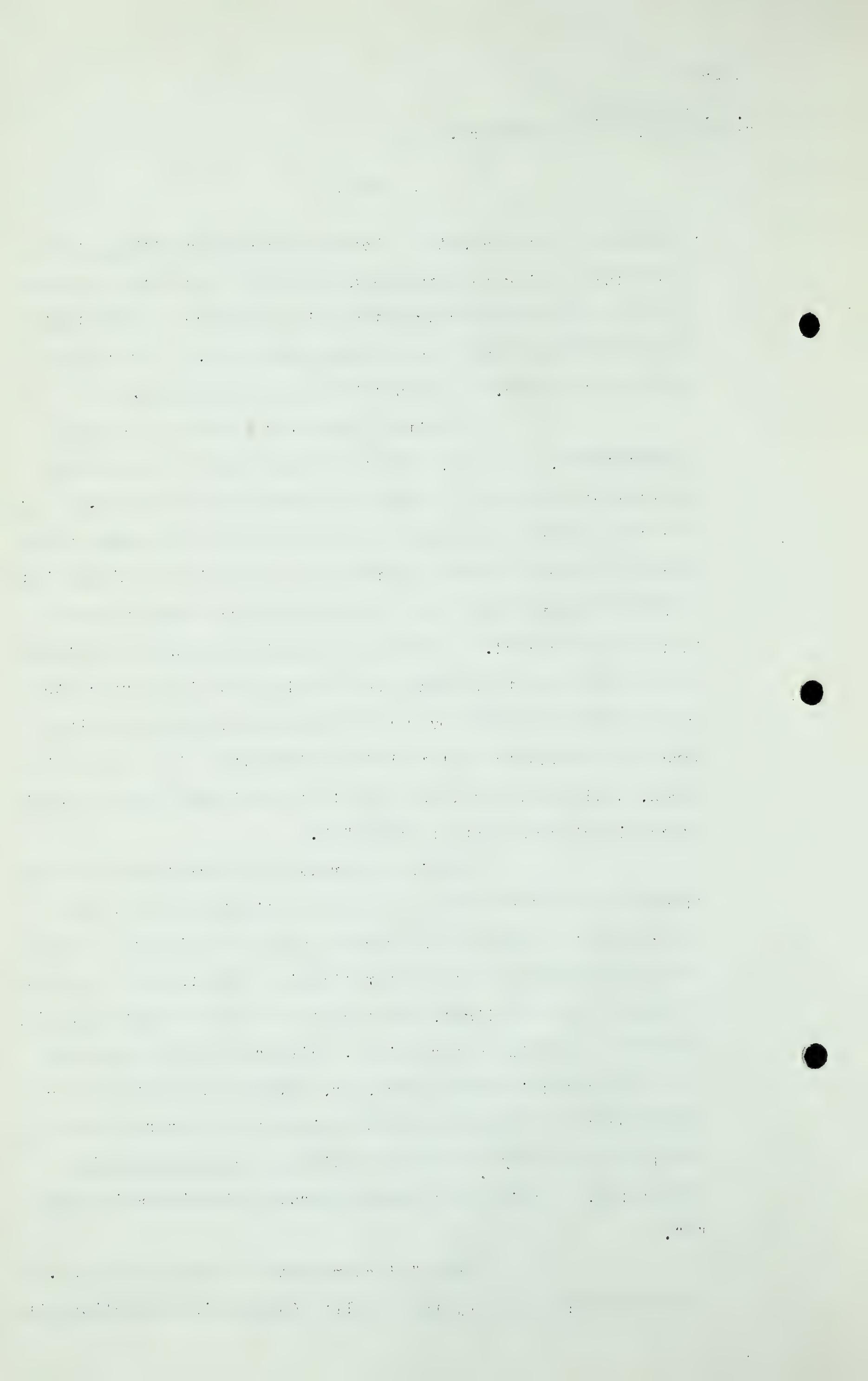
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impossible for the asset to have been acquired without the expenditure having been made and a double entry set of books has been maintained throughout and it therefore follows that the dollars must have been charged some place. They could not just disappear. They must have gone some place.

Now with regard to the third of those possibilities. That is, that the cost might be included in the historical cost of something taken over by Madison. There is this further possibility to suggest that if we made a complete inventory of other departments of Royalite we might find loose equipment there for which no historical cost appeared in the plant record. I mean if it applies to assets now taken over by Madison it probably would apply also with respect to those assets not taken over by Madison and the same possible source of the assets after their coming out of the blue so to speak, would apply as does apply to those items we are presently considering as part of group "B".

Speaking generally the fact that there are items of this kind which may have a substantial value, substantially in excess of the record value which is the nominal value placed upon it at a later time in order to keep track of it when it came to light, the fact that there is that disparity suggests one of two alternatives. Either that expenses have been overstated in prior years, or, alternately that the recorded costs of other plant and equipment whether retained by Royalite or presently owned by Madison is correspondingly overstated. I think that deals generally with items in Group "B".

Group "C" represents a total of \$52,958.55 of expenditures made by the Royalite Company in connection with



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the experimentation and alterations made by the Company in connection with the Girbotol process. The principle item included in that \$52,000.00 is an item of \$32,000.00 representing contaminated chemical which was utilized in the Girbotol process as it was first instituted. Subsequently it was withdrawn in favour of another chemical upon advice of the manufacturer and the opinion of Company representatives. The story apparently being that the original chemical that was used in the first process was not satisfactory for use under local conditions and the substitution was therefore made. I am informed that this \$32,000.00 value is still upon the books of the Royalite Company as an inventory value and that the chemical is still in existence in a tank owned by the Royalite Company and I believe there is a reference to this particular matter by Mr. Kirkpatrick in his previous evidence.

MR. BLANCHARD: I will give that reference so as to keep the continuity. It is in Volume 23 at Page 1828, perhaps 1827 and follows to 1828. That is where Mr. Kirkpatrick as I understand the evidence, sir, said that no charge was being made Madison or by Madison for this contaminated chemical which was being retained by Royalite and not being taken over by Madison at all. Apparently there has been a change of position in this situation.

A There are several special considerations which apply to items in Group "C". First of all the question of applying the test of use and useful, which appears with some force on this particular matter of chemicals. There is the chemical which was bought and paid for. It cost \$32,000.00 undoubtedly, but at the present time so far as Madison is concerned it is neither used or useful or an asset, because it does not even belong to

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them. On the other hand with respect to that item and the other items making up the total it is true that in a practical sense this money was spent in connection with the general improvement and reorganization of the scrubbing process. In that particular connection I believe when the matter was discussed some previous time, Mr. Chambers, I did suggest that there was an element of perhaps of going value with particular reference to the Girbotol process by reason of the experimentation that had been done in that regard. I think it should also be pointed out that experimental costs of this nature should in my view at least not be amortized for such a lengthy period as would occur if this were included in the rate base as a figure of \$52,000.00. It has always seemed to me in a business which is so susceptible to technological change that each operating era you might say might stand its own experimental costs, otherwise over a long period of time, over generations or centuries you accumulate such a pyramiding of experimental costs that the situation becomes ridiculous. Further than that, the fact that some measure of benefit of this experimentation has already been recouped by the Royalite Company in the time intervening between the time the work was done and the transfer was made to the Madison Company. Again there is the point that the necessity of experimentation and the susceptibility to technological change in a business of this character is one of the principle economic hazards which have been held before us and this has been generally considered as a higher rate of return necessary for the compensation for the risk element involved.

I think that disposes of any special comment I have with regard to Group "C". Unless perhaps I

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should point out that these items of \$52,958.00 are items which the Company itself chose to write off to expense out of total costs of \$72,000.00 which had been expended. In other words the Company spent \$72,000.00. They did not write off the whole of the \$72,000.00. They capitalized \$20,000.00 which has been allowed to them already in our historical cost compilation and they expense \$52,000.00.

MR. BLANCHARD: I think that is also referred to in the same volume and at the same pages in Volume 23.

A Group "D". There is also a fairly lengthy explanation and I am not sure that I am totally competent to supply it. In any event from an accounting point of view I think the situation is this. Substantially during the year 1943, the Royalite Company undertook a very substantial plant consolidation which is generally referred to as Project "A". Project "A" involved the expenditure of some \$639,582.02. I am informed that the planning associated with this project extended back into 1941. Most of the work involved was performed in 1943. There was some part of it in 1944; that the work was under way at the time Mr. Hill made his appraisal; that he, perforce, appraised on a basis of a completed job. The costs were accumulated on the books of Royalite and kept in suspense as it were all through 1944. After the incorporation and commencement of operations of the Madison Company and during which time we were attempting to accumulate historical costs of these assets. The final disposition from an accounting point of view of the expenditures involved in Project "A" was made in January 1945, which was some twelve months after the incorporation of the Madison Company and approximately twelve months after the work had been completed. I mention those

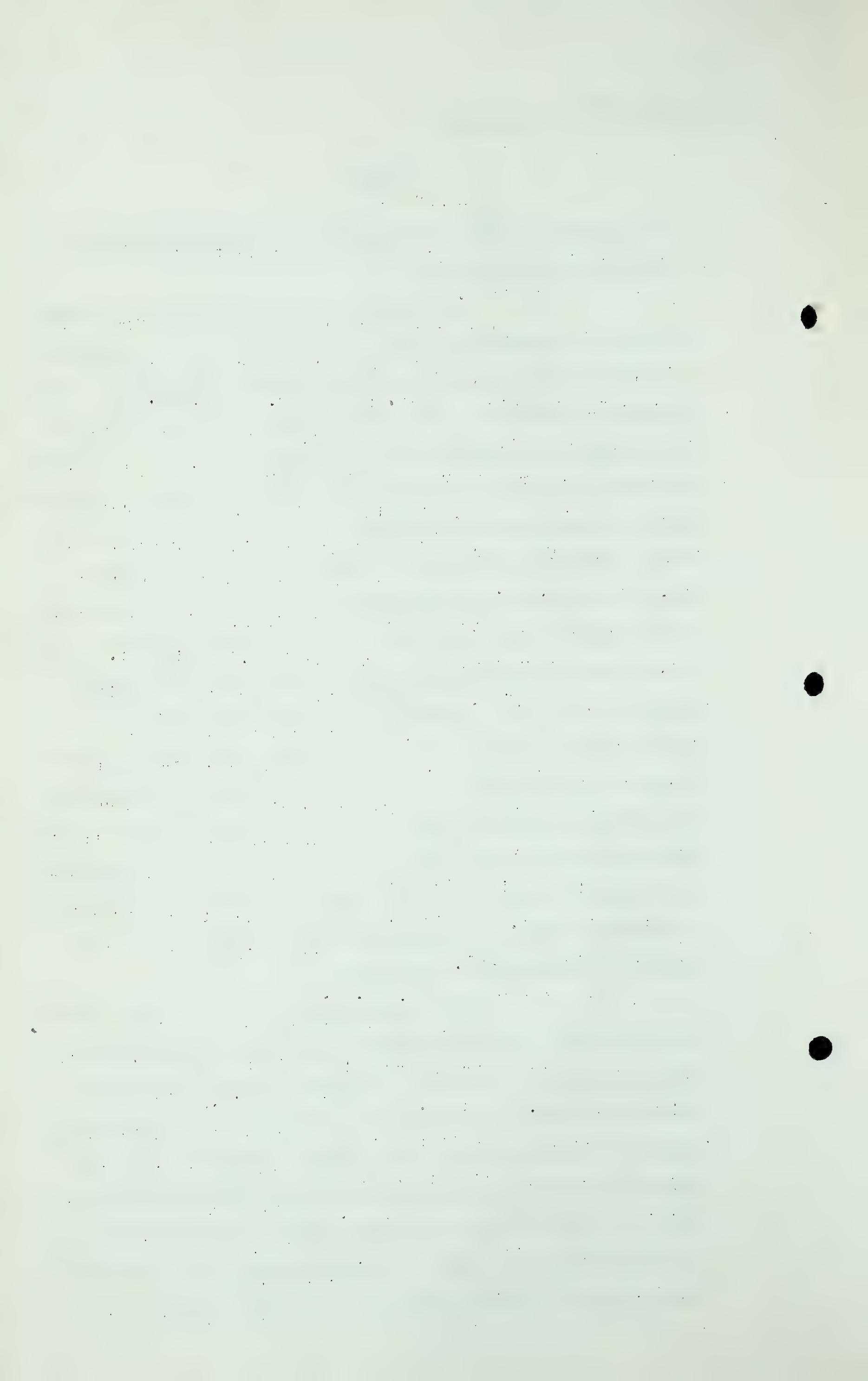
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dates because it has a bearing on my attitude towards the disposition of this item.

At that time in January 1945 the Company, Royalite, allocated the total amount that had been expended on Project "A" in this approximate manner. \$283,700.00 was assigned as the cost, the capital cost, of the assets which had already been transferred by Madison to Royalite and which had been appraised by Mr. Hill in the fall of 1943 as complete units, although then perhaps ⁱⁿ many instances in an uncompleted state. The \$287,200.00 was assigned as the capital cost of assets which were not transferred to Madison, mainly gasoline plant, north return fuel line and some "Lab." equipment. Then there remained \$68,700.00 approximately which the Royalite Company wrote off to expense. In other words they had \$640,000.00 to dispose of that had been spent twelve months before and they said we are going to capitalize this much as part of what we have already transferred to Madison and it will now represent the historical cost of what we have transferred to Madison in part. We will charge this much to construction of assets which had nothing to do with Madison and we will expense the remainder of \$68,000.00.

Now calculated in the cost of the assets which were not to be transferred to Madison was the consolidation of the No. 2 and No. 1 gasoline plants, which also involved certain expenditures on the boiler plant which was subject to consolidation too. And the Company in its disposition in 1945 took the \$37,880.00 which had been spent in and around the boiler plant consolidation, they capitalized \$9,000.00 of that as part of the historical cost of assets transferred to Madison and we have already allowed that



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\$9,000.00. They capitalized \$23,000.00 as part of the gasoline plant consolidation, and they wrote off to expense the remaining amount of \$5500.00. Now, I am impressed with the fact that this disposition was made by the Company in 1945, long after regulation had been imposed on the Madison Company and it seemed to be reasonable and still does that whatever reasonable conclusion they came to with regard to the disposition of those items is more or less binding upon them provided they were reasonably and prudently made which I assume to have been done in that particular regard.

There was another matter which was discussed with the officials of the Company which represented one further group, amounting to \$11,000.00 and I was informed this morning that was abandoned and I am sure that I am not omitting.

MR. CHAMBERS: That is right.

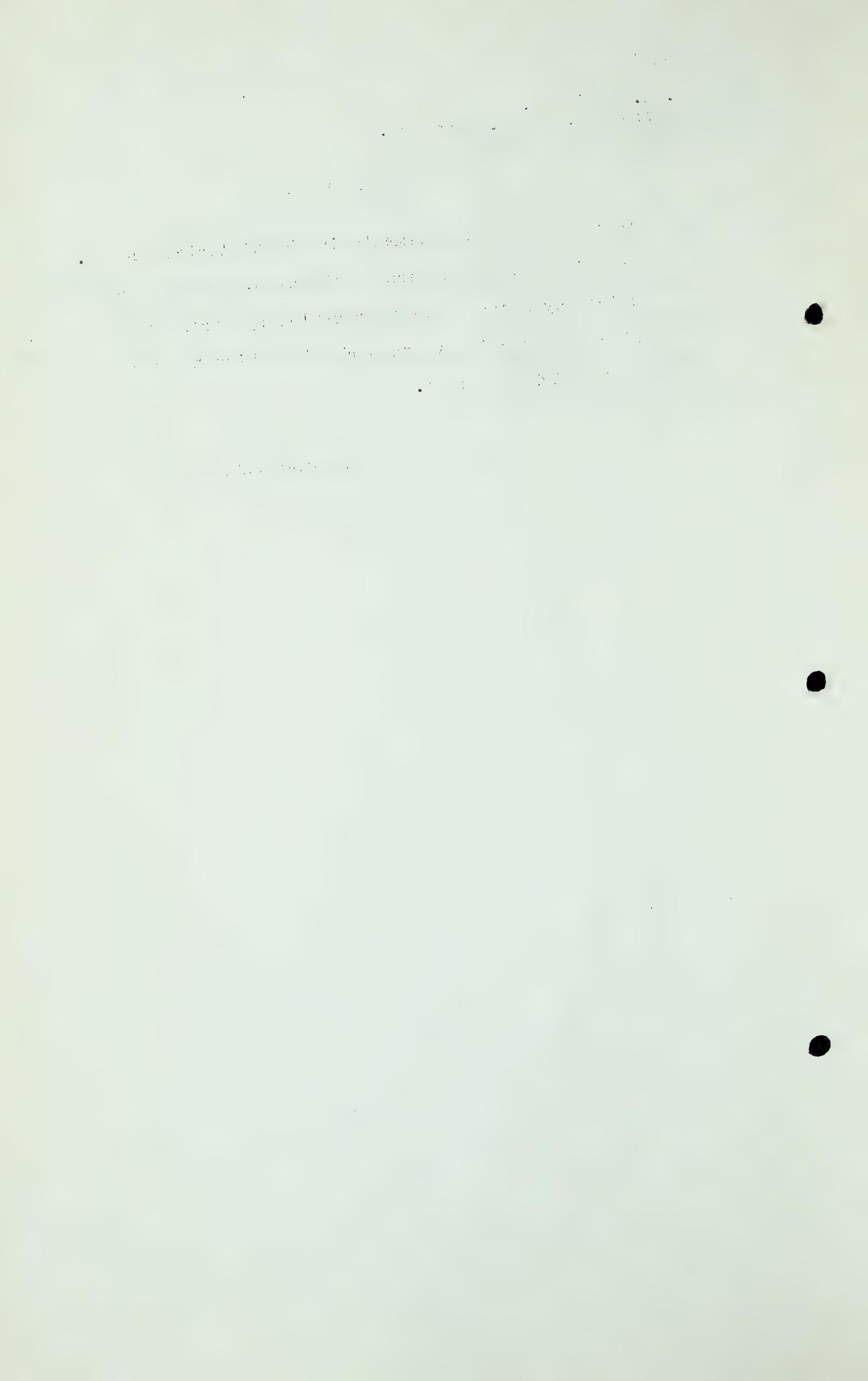
A Now in order to put the whole of my views before you in regard to these matters at one time, I think I should perhaps go on to say that when we had the conference to which I have referred with representatives of the Company we had come to the conclusion that the historical costs total that we had then determined was substantially correct. We recognize that there were elements which were omitted on both sides, but we felt they were a fair offset one group to the other, and I feel impelled to say that my conclusion in that regard is the same now as it was then. This is a very impressive list of suggested adjustments or suggested items that might be considered for adjustment, but on the other hand there are certain factors which we appreciated at that time should be taken into account and which we still think should be taken into account, and in our view is largely offset. I have already referred to the possibility

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that there may be elements in the historical cost . I am speaking now of dollars of the assets transferred to Madison which may actually be represented by parts of equipment, pieces of machinery and such like which now are elsewhere than in the Madison plant.

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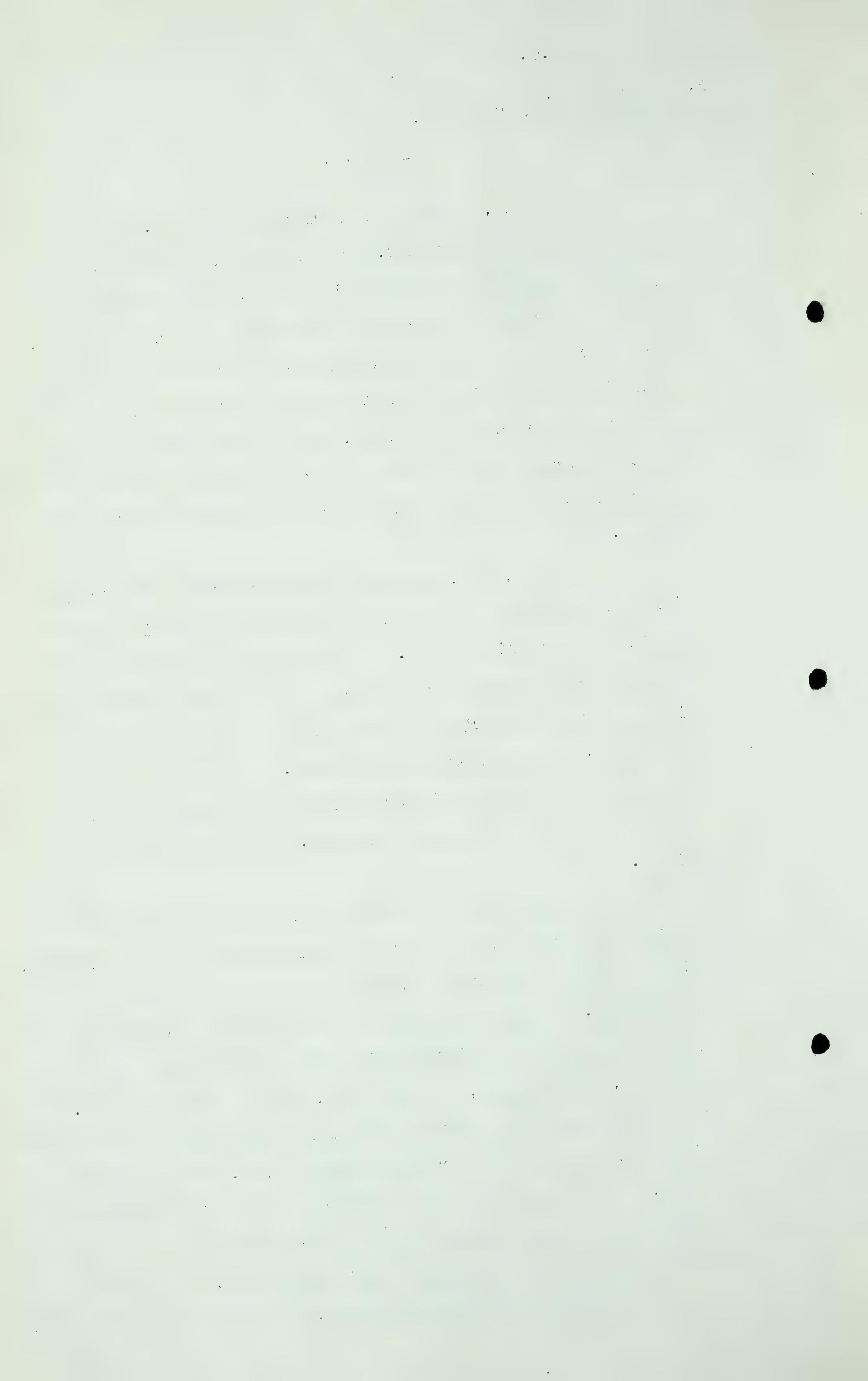
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That, of course, I am suggesting is, in the ordinary course of events, and it is not, I suggest, a deliberate attempt on anybody's part to take equipment from one place and move it to another for any ulterior purpose, but I would expect that situation to be so when you find so many items of equipment in the Madison assets which apparently had come from some place else, and it hardly seems possible that the errors would be all made of that type in one direction. It seems to me that they would roughly balance against each other.

Then, too, there is the question in this Project "A" which seems to us to have a substantial bearing on this matter of historical cost. I think the officials of the company will concede that the cost of the work that was done in connection with Project "A" was very high in regard to what might be considered normal cost. It is certain that many cases of historical cost arising from Project "A", are much higher than the value which Mr. Hill was prepared to allow.

I give you an example of that. I hope I am not taking an example which is unduly unfavourable to the Company. It is one that expressed itself to me as being fairly easy to discuss. There was located at the Number 3 compressor plant an auxiliary building which was acquired some years previous, constructed, I should say, and it cost \$3290.00, that was moved and certain alterations were made in connection with Project "A" at a further cost of \$6775.00. In other words, they started with a building which cost them thirty-three hundred dollars and spent sixty-seven or sixty-eight hundred dollars in moving it and improving it. I am not questioning that the money was spent. That would make a total



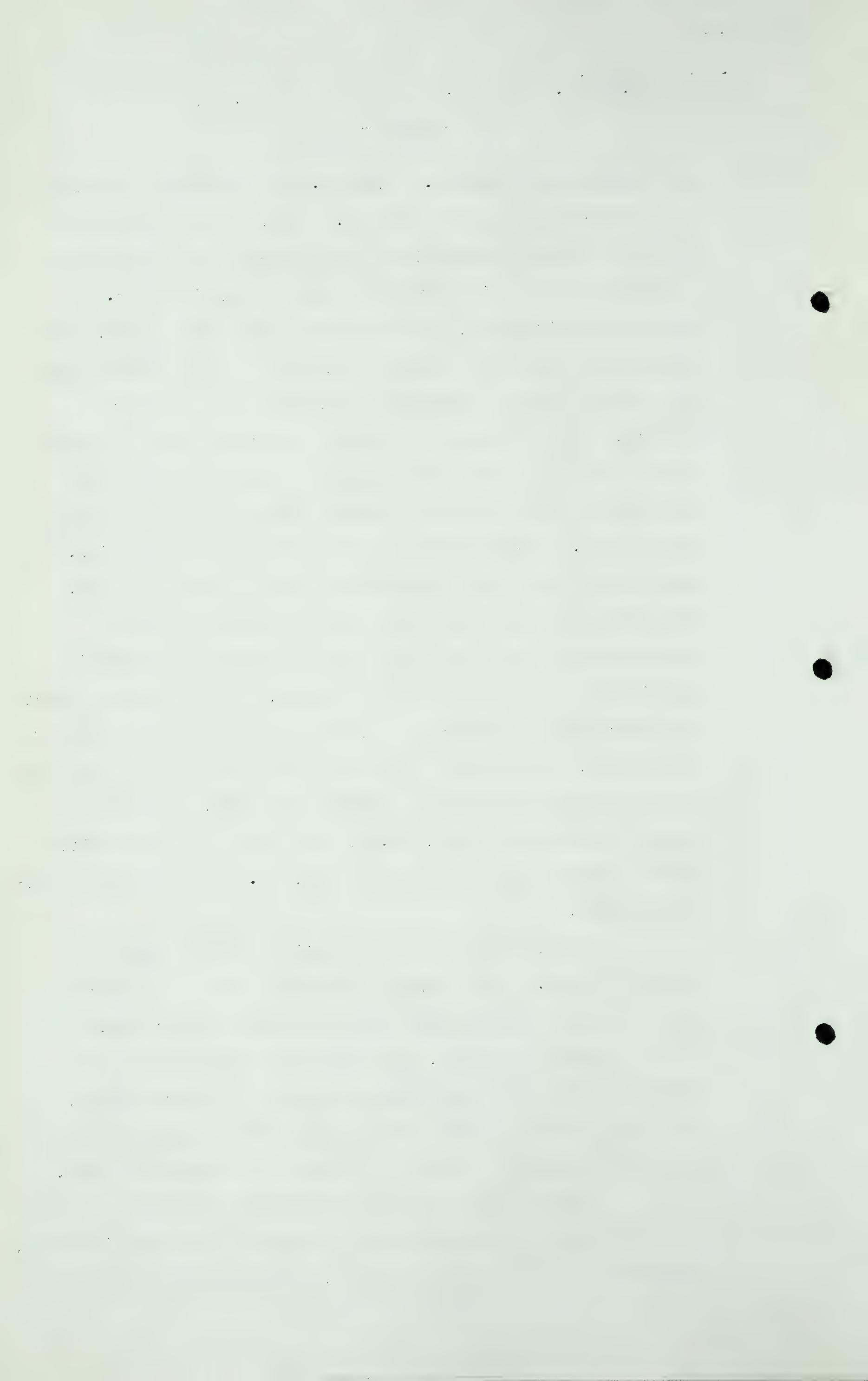
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of ten thousand dollars. And Mr. Hill appraised that item at thirty-seven hundred dollars. Now, we have understood that that situation obtained very generally with regard to expenditures made in connection with the Project "A". I think it is important for us to make this observation, that there is a tendency to confuse the idea of money spent with the concept of the historical cost of an asset used and useful. Merely because the money was spent does not mean to say that the total amount that was expended presently constitutes the historical cost of an asset which is used and useful. And it seems to me that any consolidation, it seems to me that in a consolidation project such as this, involving the amount of money that is involved, almost three-quarters of a million dollars, under the physical conditions at that time obtaining, that you would expect the percentage of expense or amount that would be written off to expense, to be higher than that which has actually resulted from the disposition of the Project "A" cost. The total amount expended was \$639,000.00, the amount that was written off to expense of that total was \$68,000.00, which was approximately 11%.

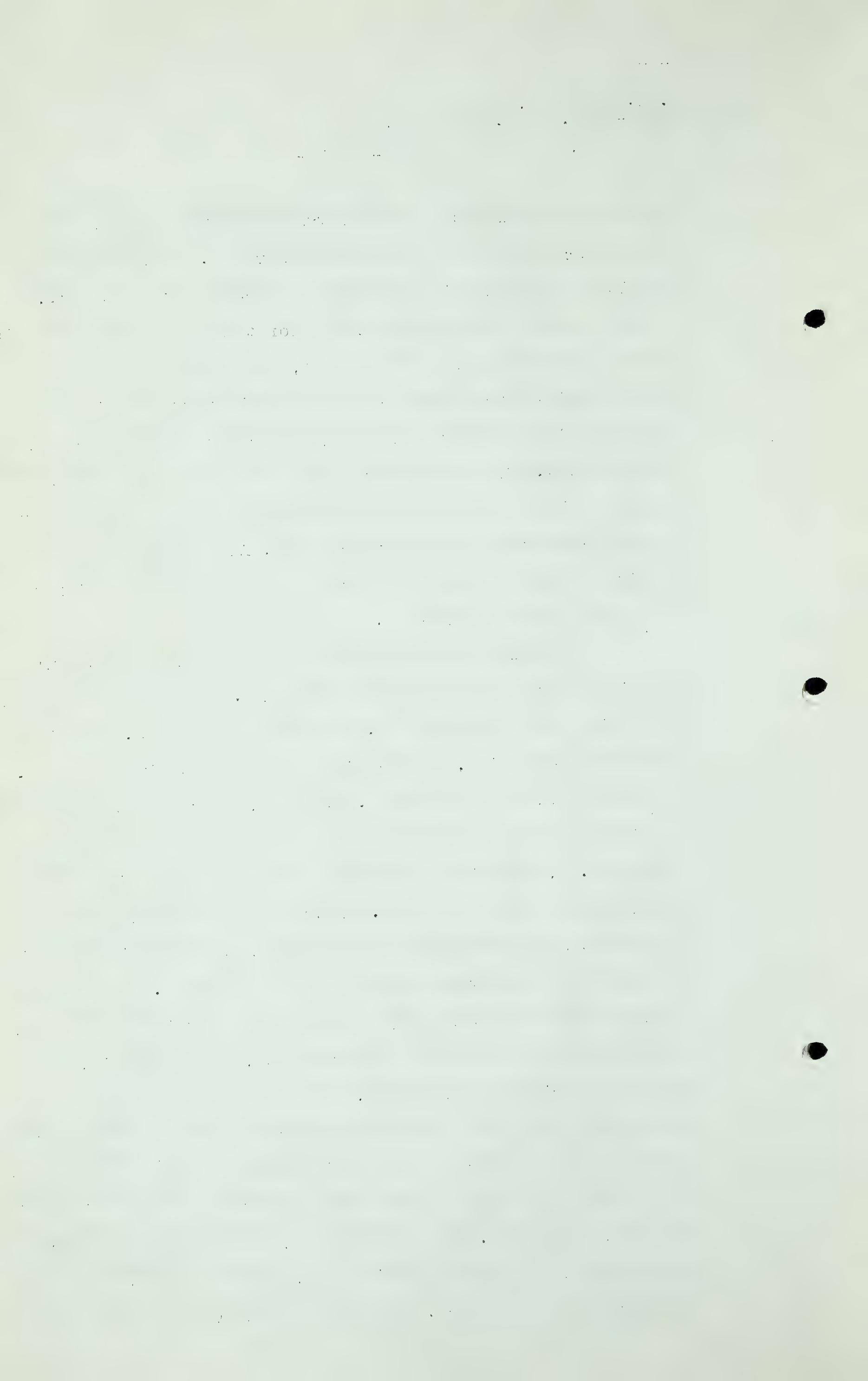
Now, I have no way of telling whether that is correct or not. I am merely suggesting that the proportion written off to expense seems low in relation to projects of that character. However, I do recognize that substantial parts of that undertaking had to do with new construction, and I am prepared to defer to an engineer's opinion whether or not that ratio of expense to total is reasonable or not.

There is this fact to be pointed out with respect to that which has been capitalized as part of Project "A" cost, and which we have already allowed, and which in our view at



that time will serve as an offset to anything which is there, and is a value in excess of this value. I am speaking now of items in groups A and B that when you expend the \$639,000.00, or when you make expenditures for that matter in connection with any consolidation project, there are three possible dispositions of the money that has been spent. One is that the dollar that has been spent is chargeable to current expenses. Another is that the dollar that has been spent ought properly to be capitalized as an asset to be recouped out of future operations by depreciation. And the third alternative is that the dollar that has been spent is a recognition of a past capital loss.

Perhaps the example that I spoke of a moment ago might serve to illustrate that point. We took an old building that had a cost of \$3300.00 and we spent \$6700.00 in improvements and moving, and we wind up with something which, Mr. Hill says, is worth \$3700.00. Now, it would be good economics for the company if it knew that it was going to cost them \$6700.00, provided they would get something which is worth anything more than \$6700.00, even if the resulting value was less than the combination of the cost of the original building plus the additional expenditure now entailed. But I can quite imagine that the company would expect to write off a part, either of what they are now doing or, alternatively, a part of the original investment, because it seems to me to be reasonable that there had been an actual capital loss related to the original cost or the first expenditure at a time when you obtain the usage to which that investment was first given. You spend \$3300.00 which would have a normal life expectancy of so long in a certain location, but you do not permit that investment to mature. Part way through its life you say



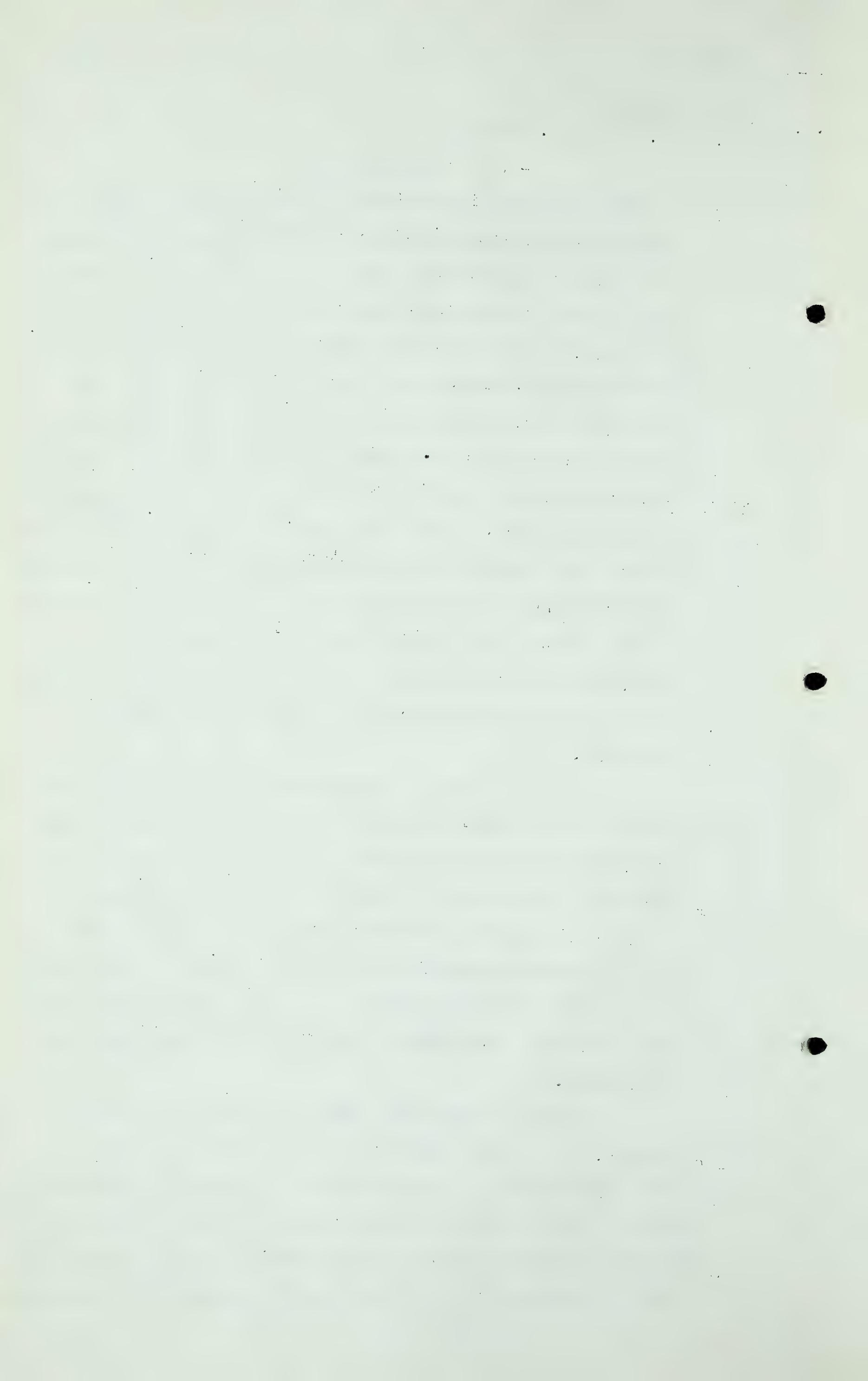
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"We will take this and we will do something to it and we will have something different." Well, it seems to me most reasonable to suppose that when you do that you, in fact, abandon part of your investment that was committed to the first expenditure, and that seems to be borne out by the valuation placed by Mr. Hill, not only on this item, but on a great many others, in which his valuation is substantially lower than the historical cost. And that situation seems to obtain peculiarly to project "A" costs in regard to expenditures made in past years. The general trend is for Mr. Hill to keep fairly close to the actual historical costs, although naturally he is over by reason of the price level changes. But when you get to items which involves Project "A" expenditure, then the reproduction cost now tends to be less and, in a great number of cases, substantially less than historical cost.

I should say in conclusion that we have already allowed all that part of Project "A" which the company did capitalize, irrespective of any reserves we then had as to there being present in the amount which is capitalized, elements which might have been expense, or elements which might be the recognition of past capital losses. And in so doing we felt that we had gone a long way towards offsetting items that have been listed in Groups A and B which we have first discussed.

There is also one further factor with regard to Project "A". I have run over the contract between the Allied War Supplies and the Imperial Oil Company, under and by virtue of which certain undertakings were given by Allied War Supplies to Imperial and its subsidiaries, and it seems to me that that contract has a bearing on the propriety of the costs



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included in Project "A".

Q Mr. Hamilton, the summary of the first page of Exhibit 146, as I understand it, the items of equipment listed throughout Groups "A" and "B" are now owned by Madison except this Girbotol solution that is sitting down there, is that right?

A That is not in Group "A" or "B".

Q I am referring to all the groups. Well, we will leave out "C", but I am referring to "A", "B" and "D".

A I am sorry, I have an old copy here. I wonder if I could have one of the newer ones? The order is different.
(Copy handed to witness by Mr. Chambers).

Thank you. Could I have your question again?

Q That items of equipment, etc., that are listed in Groups "A", "B" and "D" are now owned or used by the Madison Company?

A Yes sir.

Q And so far as your adjusted historical costs that you have recommended, as I understand it, the only amount included for those items is \$7,434.88?

A That is all that is included for them per se, but also in this other statement I have an offset to some other factors.

Q I think you said you were not sure, you surmised they might be included somewhere else?

A That is one possibility.

Q Now, as I understand it.....

A Pardon me. They must be included some place else.

Q In that statement?

A The cost must be some place else.

Q Somewhere else in your figures?

A Oh no.

Q But so far as you are concerned, they are taken into your gross rate base at the total sum of \$7434.88 in order to get the net

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of the 27%, is that right?

A That is right, sir.

Q And one of the reasons for you not agreeing to include the Madison account's higher figure is that you think it may indirectly appear in some other item, that is, in the Madison costs?

A That is a possibility.

Q That is a possibility?

A Yes sir.

Q And, as I take it, you say that the company, in order to have included that in the historical rate base costs, should produce tangible evidence of the costs? Is that so?

A Not altogether, sir, no.

Q Well, you say they have not produced to you satisfactory tangible evidence of the cost of these items listed in "B", and for that reason, among others, as I understand it, that is one of the reasons that you do not agree to the items in "B" being included at a greater amount than this \$7385.00?

A Well, I think the reason for the difference in Groups "A" and "B" is this, that I am satisfied by and large that items in Group "A" are not elsewhere in the historical costs of Madison assets.

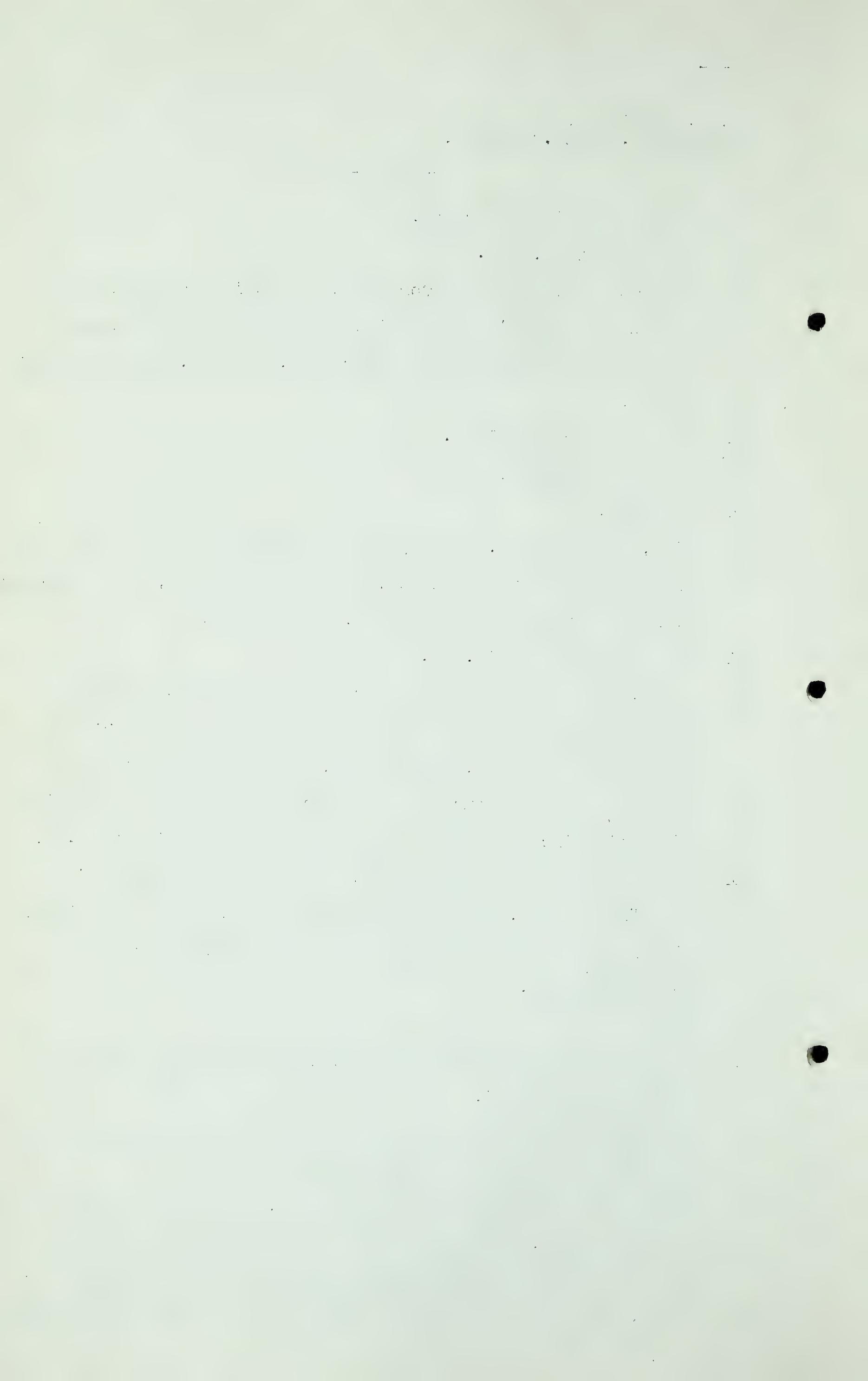
Q Yes?

A I have not the same degree of assurance with regard to the items in Group "B".

Q And until you get some degree of assurance you say you are not prepared to add them to your figures?

A Oh no sir. I might still be prepared, if it were not for other circumstances, but that is one of the elements in making up your appreciation of the proper disposition of the items.

Q Well, apart from these other circumstances, would you say that



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if this equipment is there, and we will assume that it is, that \$7,385.00 is more than the cost?

A Taking these items in Group "B", that is.

Q Yes?

A Would require an adjustment.

Q Yes?

A Yes sir. Even though we could not find the historical cost, we should feel they should have to make some adjustment.

Q Leaving aside for the moment any other consideration, you would not go so far as to say that they should not be included, unless some tangible evidence of a greater figure should be produced?

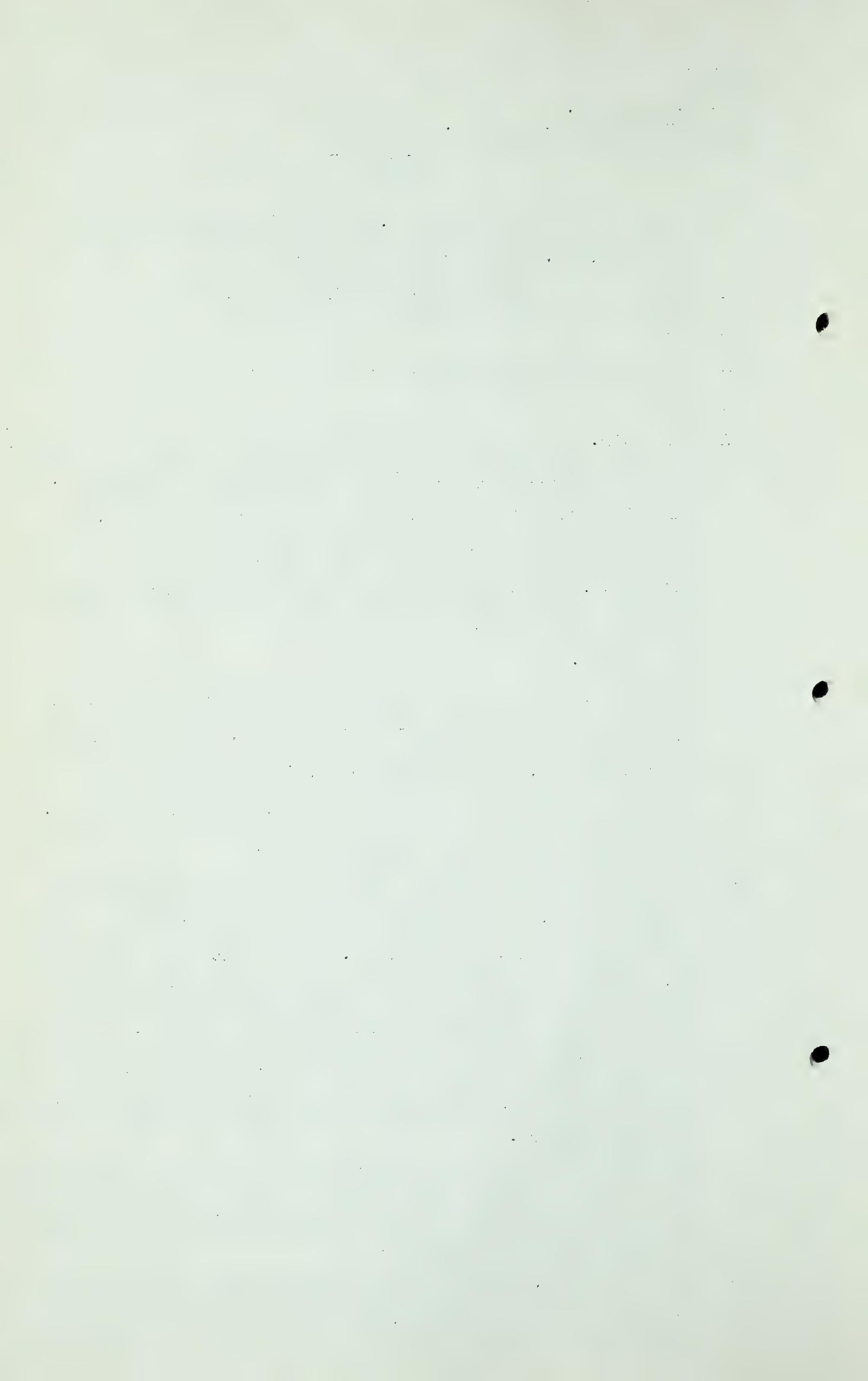
A Oh no sir.

Q Now then, you say that there are other circumstances, and you went over them yourself this morning. And one of the circumstances, as I understand it, is that certain work was done in '43 at a war year's cost, not at normal cost. That is one of the other circumstances?

A The fact that the costs in '43 are higher than they are in another year, did not influence my judgment particularly in that respect Mr. Chambers, no. It was that I was not satisfied that the total amount of dollars spent did represent the historical cost of the assets used and useful. It is not the fact that costs are higher in '43, it is the fact that the dollars spent may not result in the historical cost of an asset used and useful.

Q And you sitting in the Madison Office or in your own office, as an accountant, came to that conclusion, and that is the only evidence you had of it?

A That is right, together with the information furnished to me by officers of the company, who readily admitted to me that



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those costs were high, the reasons for which they gave me.

Q That brings up the point of historical cost in principle. Now, if that was so in '43, how do we know that it was not so back in '33?

A There is that possibility always, sir, yes.

Q And on the other hand, you may get jobs done exceptionally cheap at certain times, but so far as the records show, you would not have any specific knowledge of it?

A That is correct, sir.

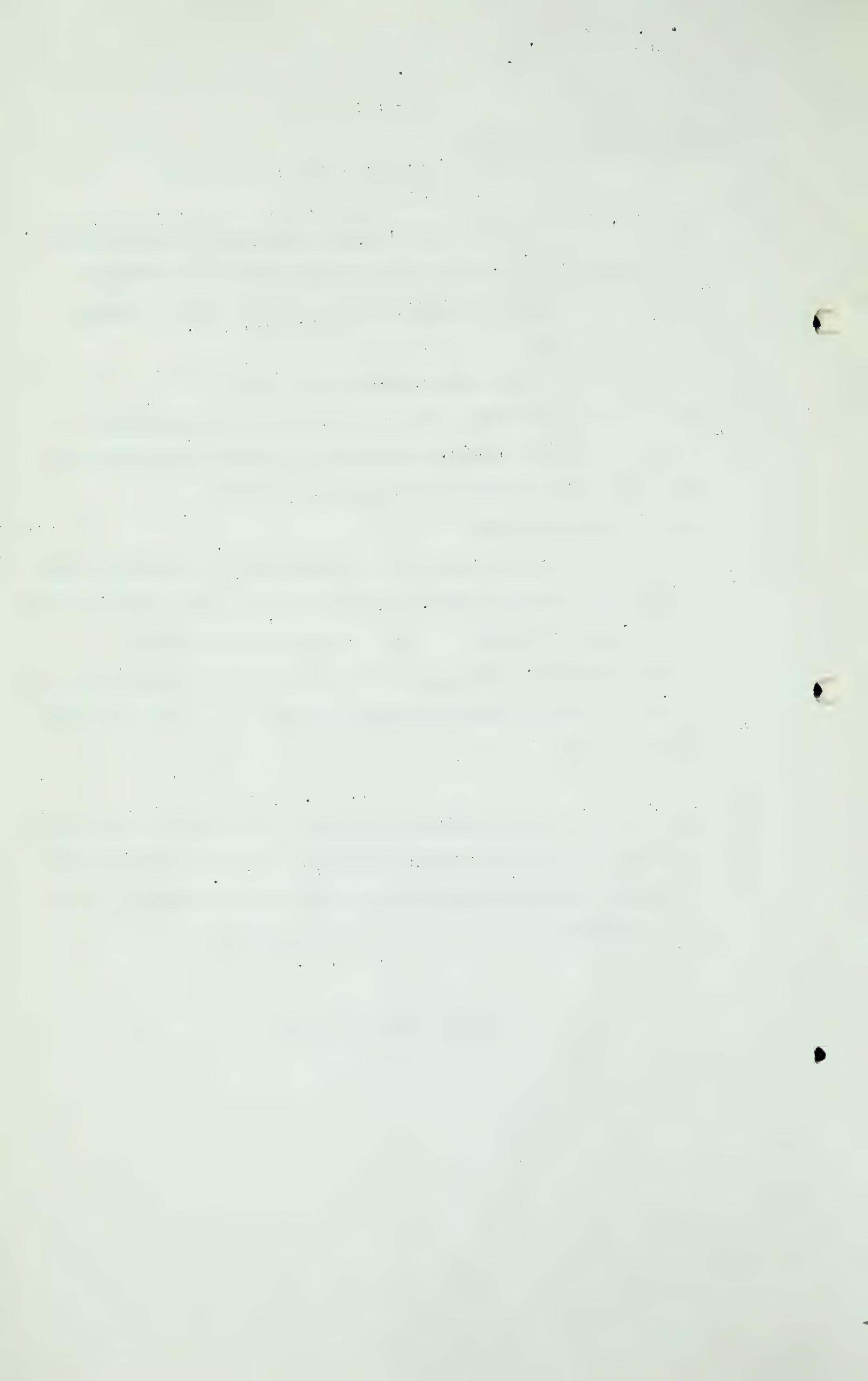
Q Now, then, what are the other circumstances, would you just - I would like to deal with them one by one. One was this cost of the project in '43. What are some of the others?

A I just want to be clear, Mr. Chambers, that we understand each other. I am not quarrelling with Project "A" costs, because they were high.

Q No.

A But I am more concerned with whether or not Project "A" costs represent to the extent of \$287,000.00, the historical costs of assets used and useful now in the Madison service, which is an entirely different aspect or situation.

(Go to page 5337.).



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Q Yes.

A That is an entirely different aspect of the situation.

Q And what is your next compensating factor?

A Another possibility is that there were in the historical costs of the Madison assets, in certain cases, elements of cost which on and after discussion with officials of the company appeared to represent the cost of maintaining service during construction operations. That would occur at any time over the last few years, not necessarily in connection with Project A and whenever those circumstances came to our attention, they were discussed with officers of the company and it was directed that these costs be deleted. When I say "it was directed", not by ourselves but it was agreed.

Q Anything that specifically came to your attention was not included in your

A That is correct.

Q You suspected, as I take it, there might be some others?

A There is a possibility.

Q That is one of the things that is a compensating factor to these others?

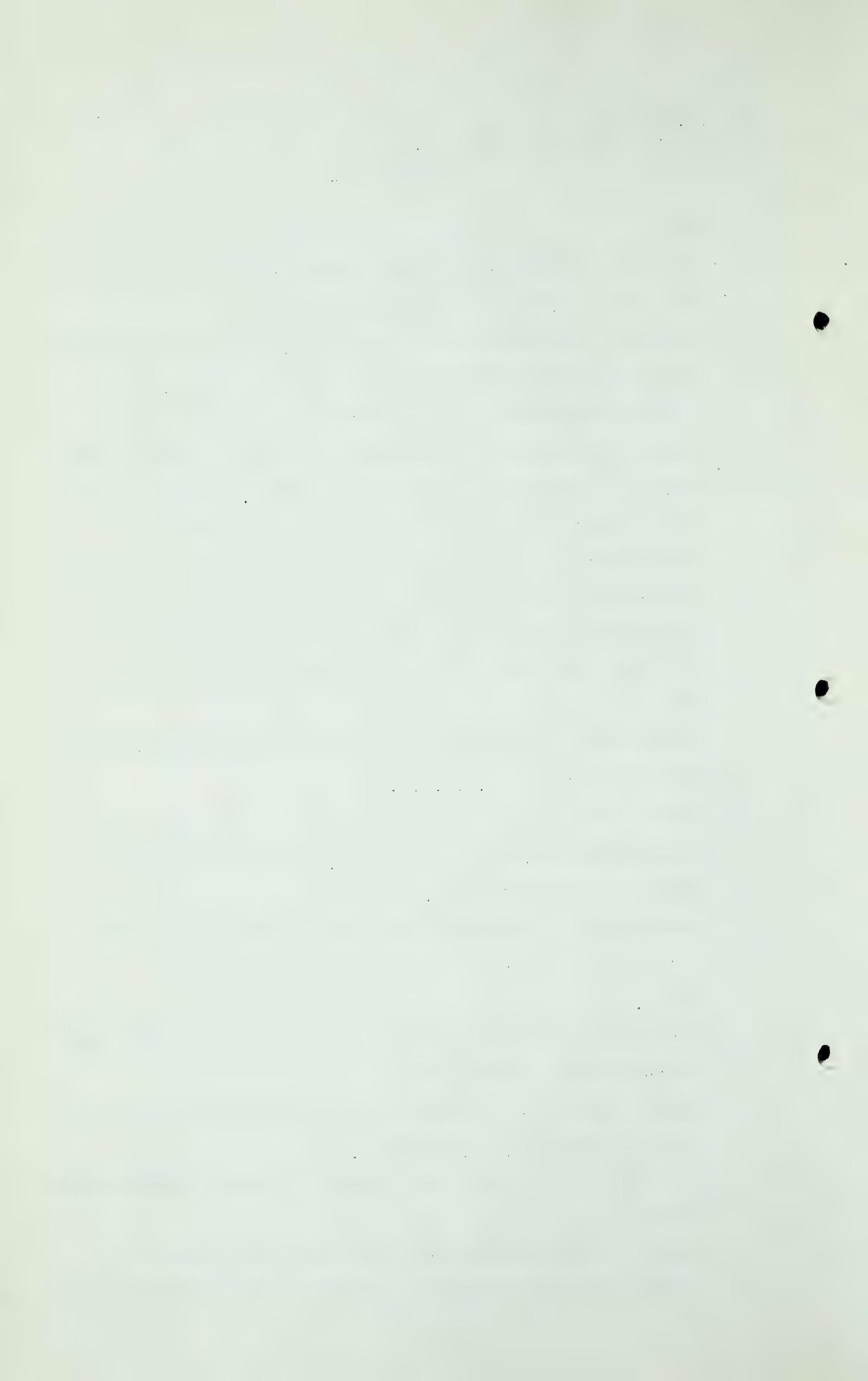
A Yes.

Q You have no knowledge whatsoever that there were additional circumstances such as those?

A That is correct. It is not a great deal of consideration I would not say, Mr. Chambers.

Q What other factors are there which you say are compensating factors?

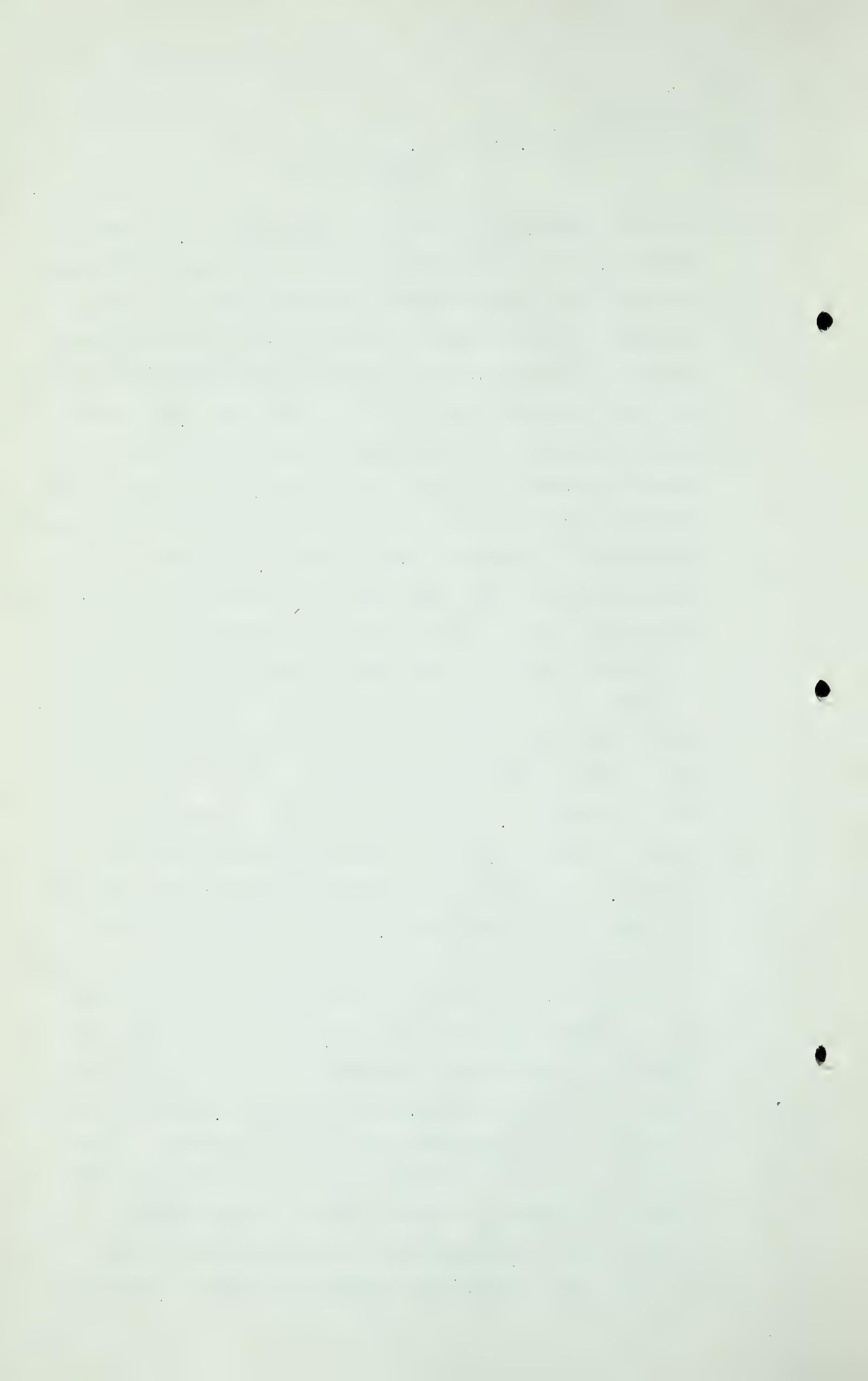
A There is just a possibility that there might be some similar to those included in Group B. I find this rather



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hard to express and possibly it is my fault. But Group B represents items that have come out of the blue, so to speak. We do not know where they are originally charged. Their physical history is fairly evident in most cases and known to officials of the company but the disposition of the moneys that were spent on them is not so clear cut. Now I would say this, that if you canvassed all other departments of Royalite's operations, you would probably find similar lists of items which have come out of the blue into plants of other departments of Royalite's operations. With regard to all of these items, not only those which are included in this Group B but similar Groups B for all other departments of Royalite, that items included in that grand summary were originally charged either to expense or to capital expenditure and it may be that they would appear in the plant records as part of the cost of something else or else they have been written off to expense. It is just as possible, I would think, at least in theory, practical considerations may influence this, but it is just as possible that Madison has acquired, you might say for nothing, something which was originally charged to the historical costs of some other Royalite asset; also possible that Royalite in some other department has got an asset which is included, the cost of which was included or inadvertently charged to that part of the plant which has since been acquired by Madison. Now we are in the realm of probabilities there. What suggests probabilities to me is the extensiveness of this list of items in Group B, particularly when after a fairly thorough investigation, the employees of the company cannot show us where these things were charged to expense. I would



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have thought that would not be unduly difficult.

Q Then, Mr. Hamilton, that brings me to this, I suggest to you that in the absence of an agreement, which would have to be an arbitrary agreement, in order to fix a rate base of this particular equipment on a historical cost, you have got to make a lot of assumptions and speculations as to what the situation really was.

A That is correct, sir.

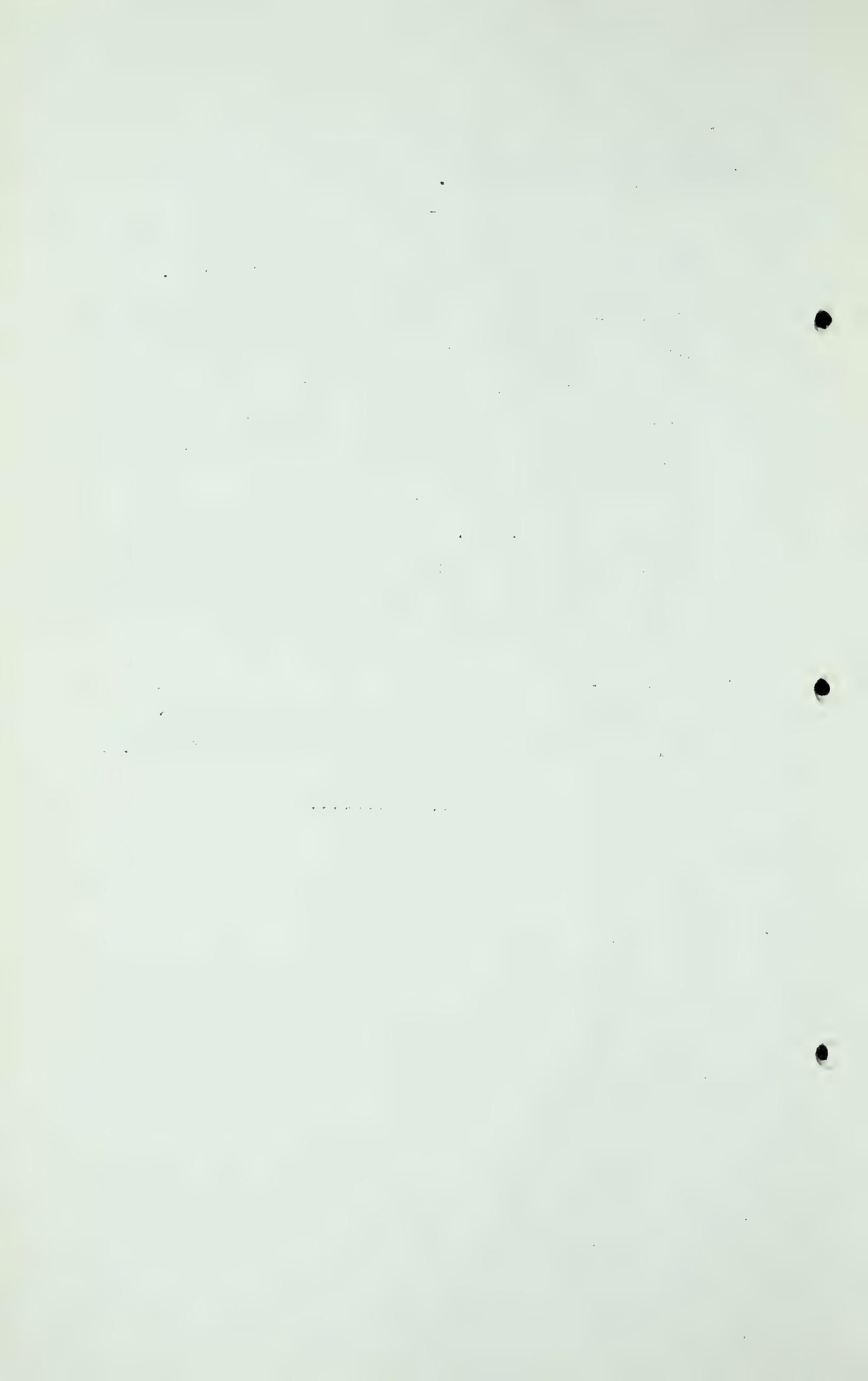
Q You are suggesting that that is a fair basis for this Board to use in setting up the original rate base of this company brought under regulation for the first time?

A Yes, sir.

THE CHAIRMAN: I think we will adjourn now.

(At this stage the Hearing was adjourned until 2 P.M.)

.....



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2 P.M. SESSION

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MR. BLANCHARD: Mr. Hamilton is not here.

MR. CHAMBERS: Maybe we can speak to the Agenda while we are waiting, as to when we will resume again after today and what we are going to deal with. You are not sitting next week?

THE CHAIRMAN: Well, what about the Agenda. Oh here is Mr. Hamilton now.

R. W. HAMILTON, Continued.

MR. CHAMBERS: I have no further questions, Mr. Hamilton.

.....

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. FENERTY.

Q Mr. Hamilton, in dealing with Group B of Exhibit 146, I think you made the suggestion that if those items were in fact charged up to expense the company might now be entitled to an adjustment?

A If you take those items by themselves, yes, sir.

Q Would that be because you think they are not properly items of expense and should be capital items?

A Yes, sir.

Q Now how would you if you were, as an accountant, seeking to make such an adjustment, how would you go about it? Would you deduct those items from the expense account in the year in which they were so charged?

A Yes, sir.

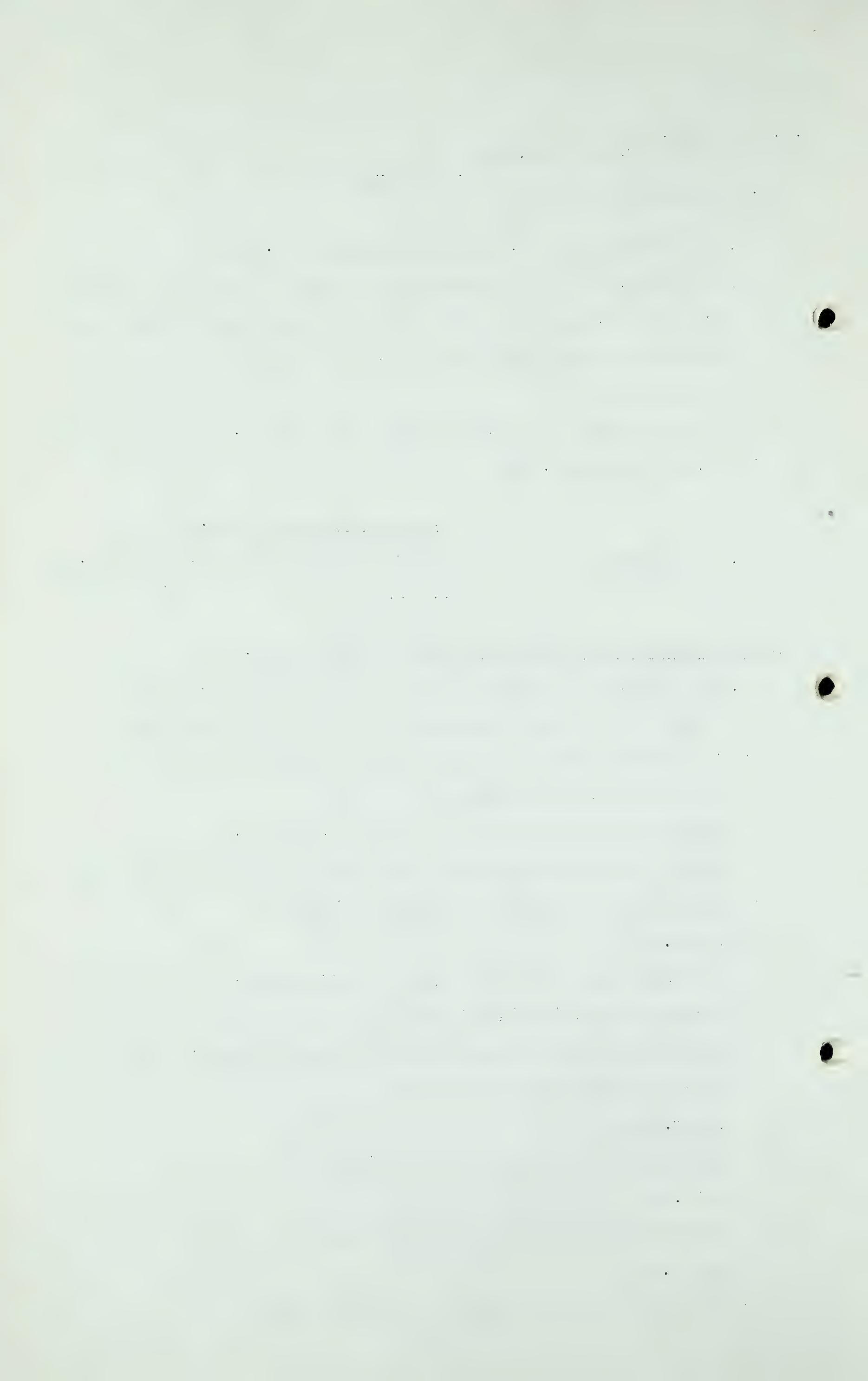
Q And add them to the capital account?

A Yes sir.

Q Then you would have to make an adjustment in your profits?

A Yes, sir.

Q You would have less expense and more profit?



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Cross-Exam. by Mr. Fenerty.

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A I would adjust the surplus account, sir.

Q And as a result of that adjustment of the books, it would give you a greater profit?

A It would change the surplus account at the time you made the adjustment.

Q And that might make a change in income tax?

A Conceivably.

Q Would you say that in such case the income tax paid for that year should also be adjusted if it made that change?

A I hardly would feel it was a matter of my concern, sir.

Q What is that?

A I would hardly feel it was a matter of my concern.

Q You could not have two sets of books showing different results could you?

A No, sir.

Q You then have got to have one set of books and we have to account for everything.

A That is right.

Q The making of that adjustment makes necessary corresponding adjustments in other entries if they all have to balance.

A Yes.

Q You say that adjustment would be reflected in the surplus account?

A Yes, sir.

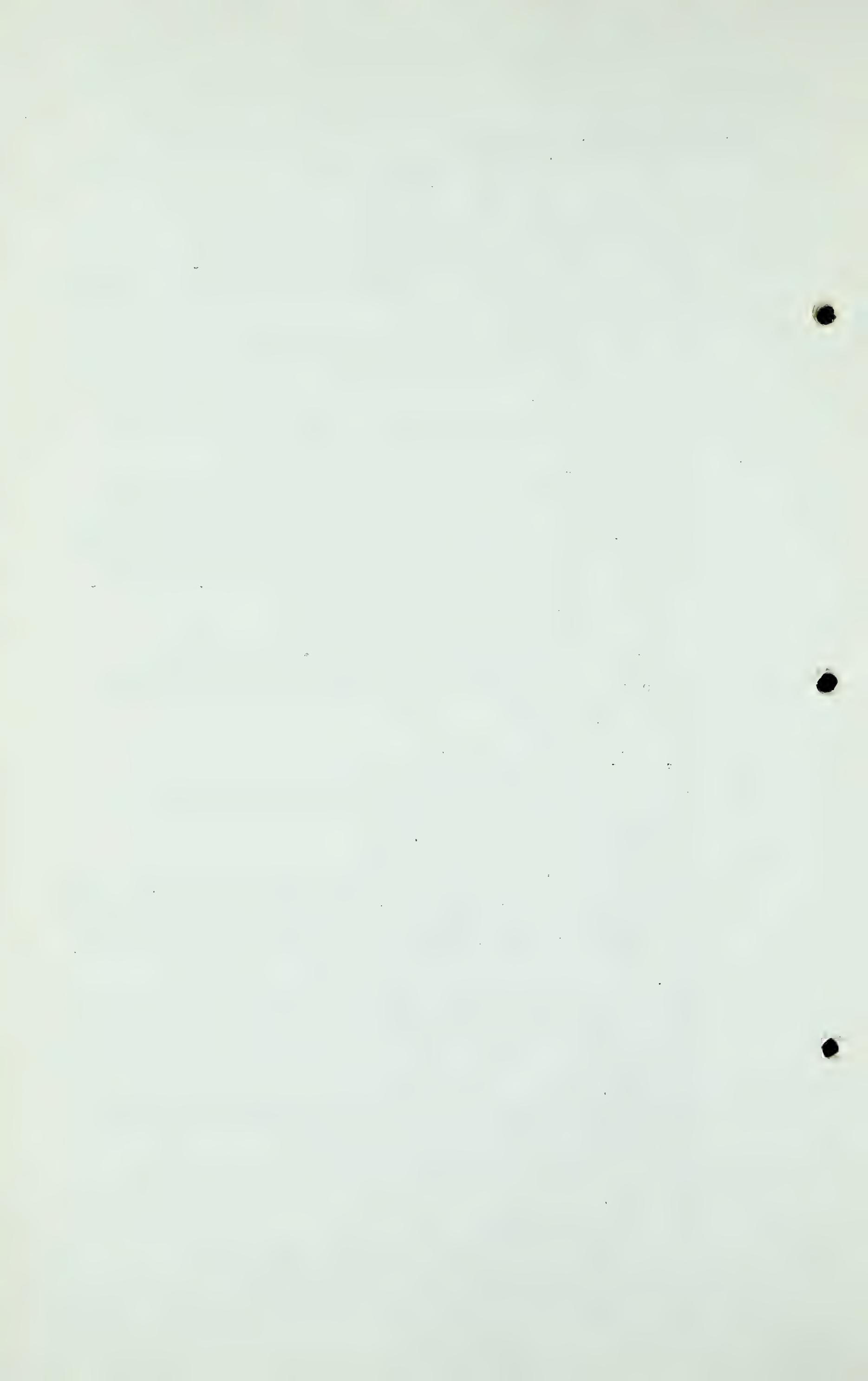
Q That surplus account being made up generally of items of income?

A Yes, sir.

Q Which may be profit?

A Which might have been profit at the time.

Q And consequently should have been reflected in the income



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Cross-Exam. by Mr. Fenerty.

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tax?

A I do not know, sir.

Q If profits?

A If they were taxable income, yes, sir.

Q If profits, they should be reflected in the income tax?

A Not necessarily, sir.

Q If profits?

A Not necessarily.

Q How are you going to get rid of that? I am interested.

I want to find a way of doing that. If you would tell me how you fix your books.

THE CHAIRMAN: Are you going to pay him a fee for it?

MR. FENERTY: No.

MR. STEER: Lots of us will.

MR. FENERTY: I am going to see he earns his fee.

Q But joking aside, that is elementary. If that should be reflected as profits, it should also be reflected in the income tax return.

A Not necessarily, sir.

Q I see.

Q MR. STEER: Why?

Q MR. FENERTY: The amount of profits necessarily has nothing to do with the amount of income tax?

A Oh yes, it has. But there are different rules. The amount of income assessable for taxation purposes is dealt with at great length in the Income & War Tax Act and in the Excess Profits Tax Act. If elements that are taken to the credit of the company's profit and loss account are such that they fall within the definition of taxable income, then they are taxable. If the elements of expense

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that have been charged to the profit and loss account fall within the definition of deductible items under the Income & War Tax Act they are deductible. It does not necessarily mean that an item could not at the same time be a deductible item for tax purposes and yet be a capital expenditure for this purpose.

Q You say it is not necessary for an item to be income for one purpose of the company to its advantage in dealing with third parties and at the same time be capital, charged against capital in the dealings with other parties, again to the company's benefit?

A I am not quite sure what my answer will indicate and I wonder if I could have the question again.

Q It is conceivable - I do not want to go over it all again - it is conceivable

A That it could be this and that.

Q By charging these items to expense the company has paid less income tax than it otherwise would?

A Yes, sir.

And it is conceivable that by now charging them to capital that the company may get a greater rate for its gas than it otherwise would?

A Yes.

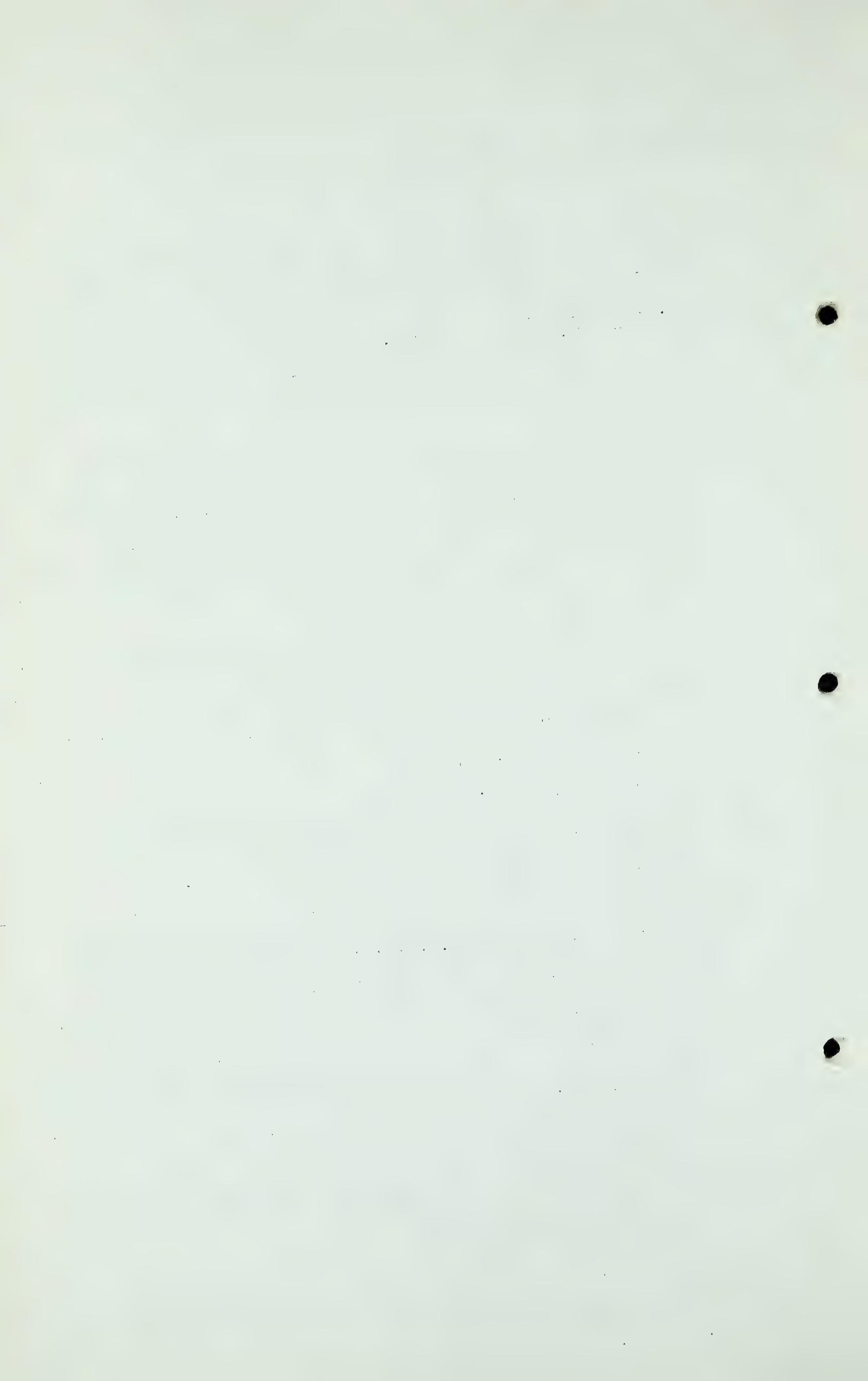
Q And by charging it one way it has benefitted in its dealings with the Income Tax Department?

A Yes.

Q And by charging it another way, has benefitted in its dealings with the consumers?

A Yes.

Q And you think it is proper they should get both those



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benefits by changing their books around?

THE CHAIRMAN: There is a decision in the House of Lords, Mr. Fenerty, that says a company can do that very thing.

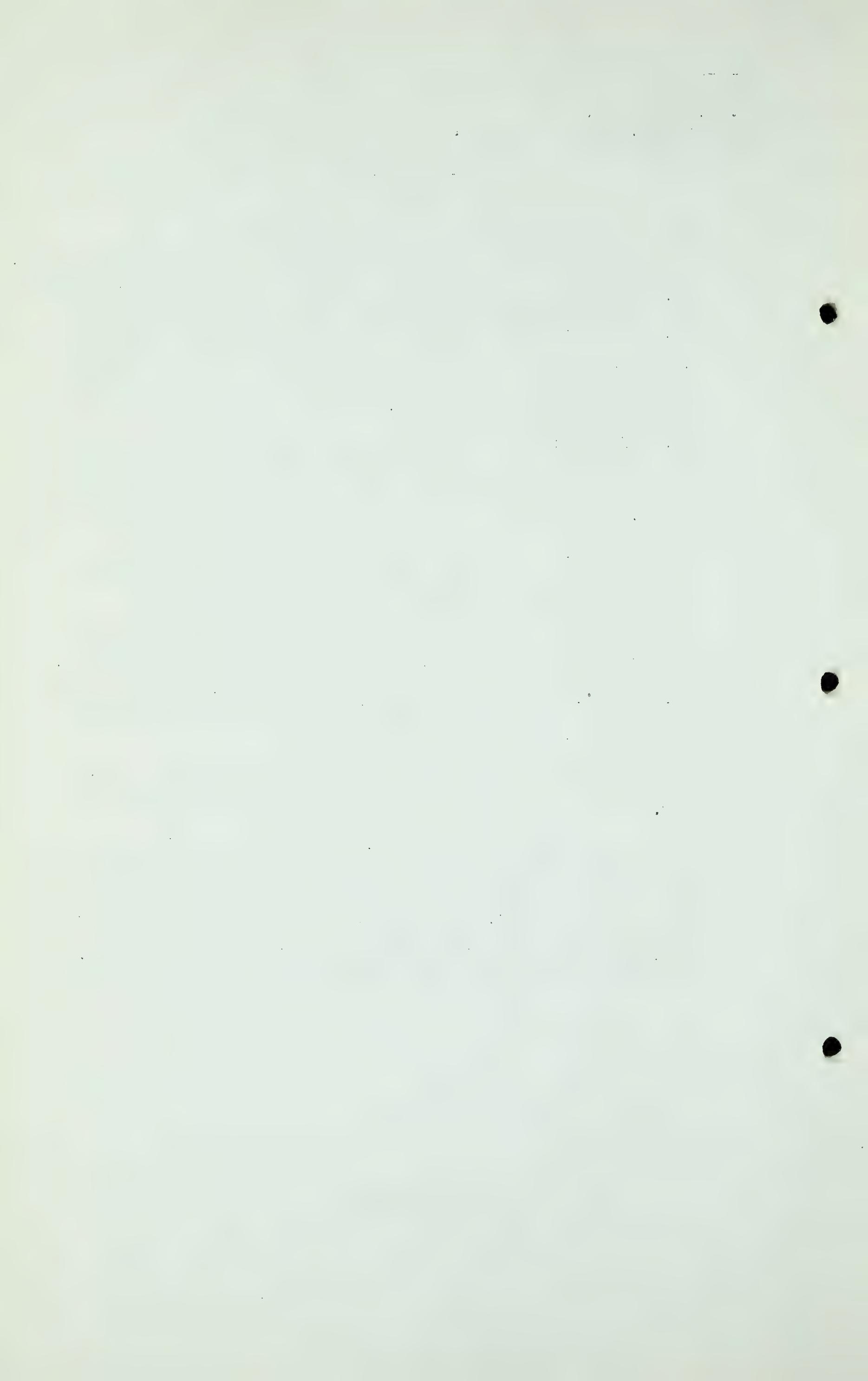
MR. FENERTY: There is also a decision in the Hope case that my friend has been referring to that they cannot countenance such a practice.

MR. CHAMBERS: We have to pay more attention to the House of Lords decision than to the United States Supreme Court.

Q MR. FENERTY: But I would still like just to pursue that to its logical conclusion, because I am having difficulty enough, not being an accountant, in trying not to ask foolish questions. Now would you just repeat that, Mr. Taylor, because I am really interested in your answer to this one, Mr. Hamilton.

A I think I can answer as to whether it is proper or not, sir.

(BY THE REPORTER READING): "Q. And by charging it one way it has benefitted in its dealings with the Income Tax Department? A. Yes. Q. And by charging it another way, has benefitted in its dealings with the consumers?"



R.W. Hamilton,
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Q But I want your opinion as an accountant as to whether this is a just and reasonable way of doing it, using the words of the Act.

A I do not feel that it is my responsibility to define parts of the Income Tax Act or the method in which the income tax is therein defined.

Q But I felt you might express an opinion on this point, whether that is just and reasonable, to adopt these different attitudes, with the resulting benefits and disadvantages to the public.

A I think it depends very largely, sir, on what you mean by "just and proper". It happens every day, sir.

Q Well we will say "just and reasonable" because we have to define "just and reasonable", I think those are the words of the Act.

A I think it might be just and reasonable as between the company and the consumer and it may not be just and reasonable as between the company and the income tax authorities.

Q Might I leave it this way, that you have not looked at it and have not considered it?

A Not a bit, sir.

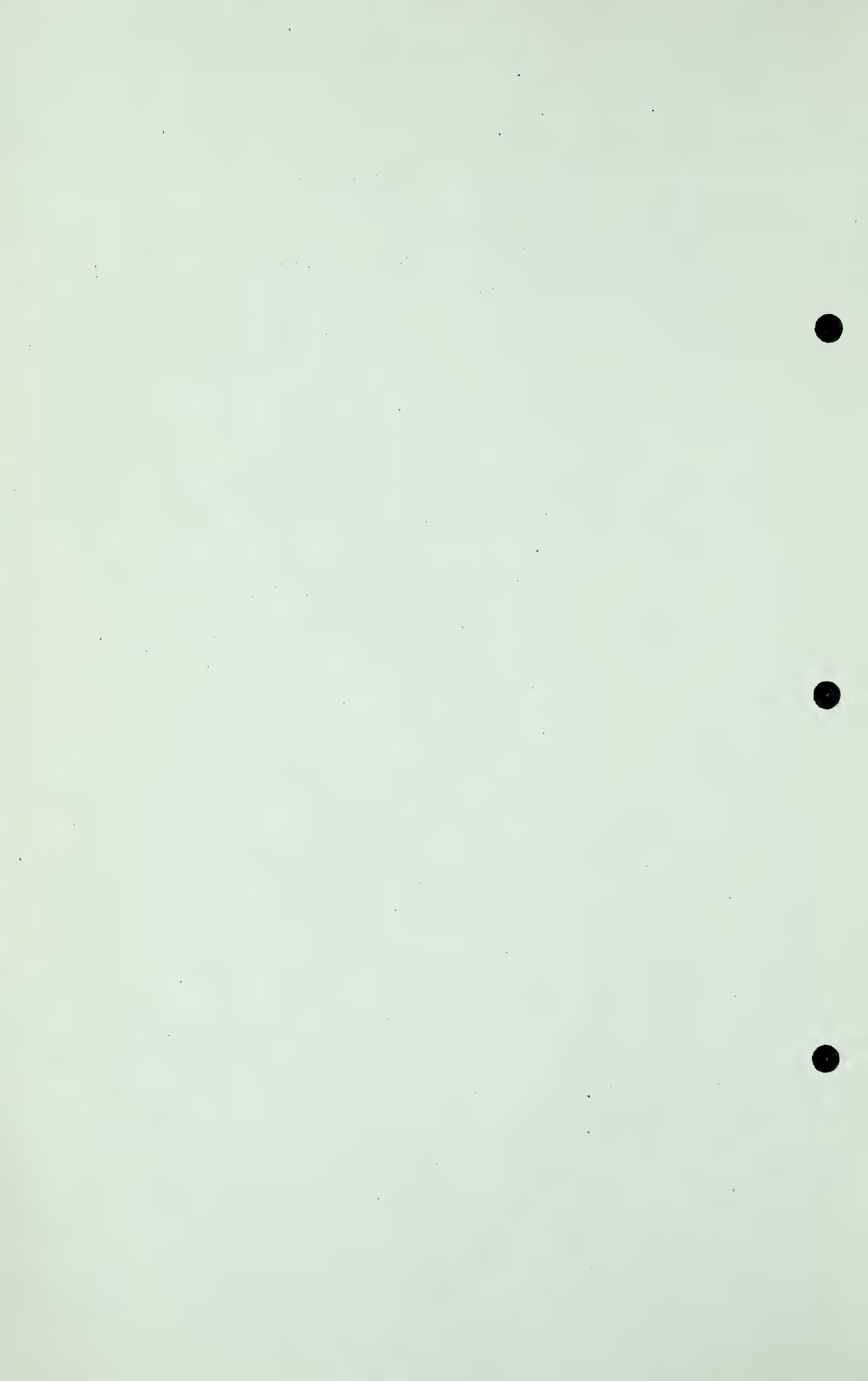
Q What do you mean by that?

A I have looked at it and it does not bother me.

Q It does not bother you as an accounting problem?

A No, sir.

Q Now, Mr. Hamilton, just one other point: In dealing with this matter of the principles to be adopted in determining the value of assets used in these undertakings and dealing for a moment with the principle of reproduction values at a certain date, as a matter of fact we took 1943 as the



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date which was under discussion, is it not?

A Yes.

Q And there has been evidence given here, I do not know whether you were here or not, but I think all my friends will agree, that in order to scientifically or properly apply that system, it might be necessary to make frequent readjustments because of changes in values from year to year, you agree with that I take it?

MR. CHAMBERS: Who suggested that?

MR. FENERTY: Mr. Zinder certainly agreed with it definitely in his cross-examination.

MR. CHAMBERS: I may be wrong but I do not think so.

MR. FENERTY: On reproduction.

THE CHAIRMAN: I think it was Professor Stewart.

MR. CHAMBERS: Yes.

MR. FENERTY: Professor Stewart, was it? I thought almost everybody did.

THE CHAIRMAN: I think it was Professor Stewart. I think he suggested if you adopted the reproduction cost new, that that might involve periodic changes according to changes in values.

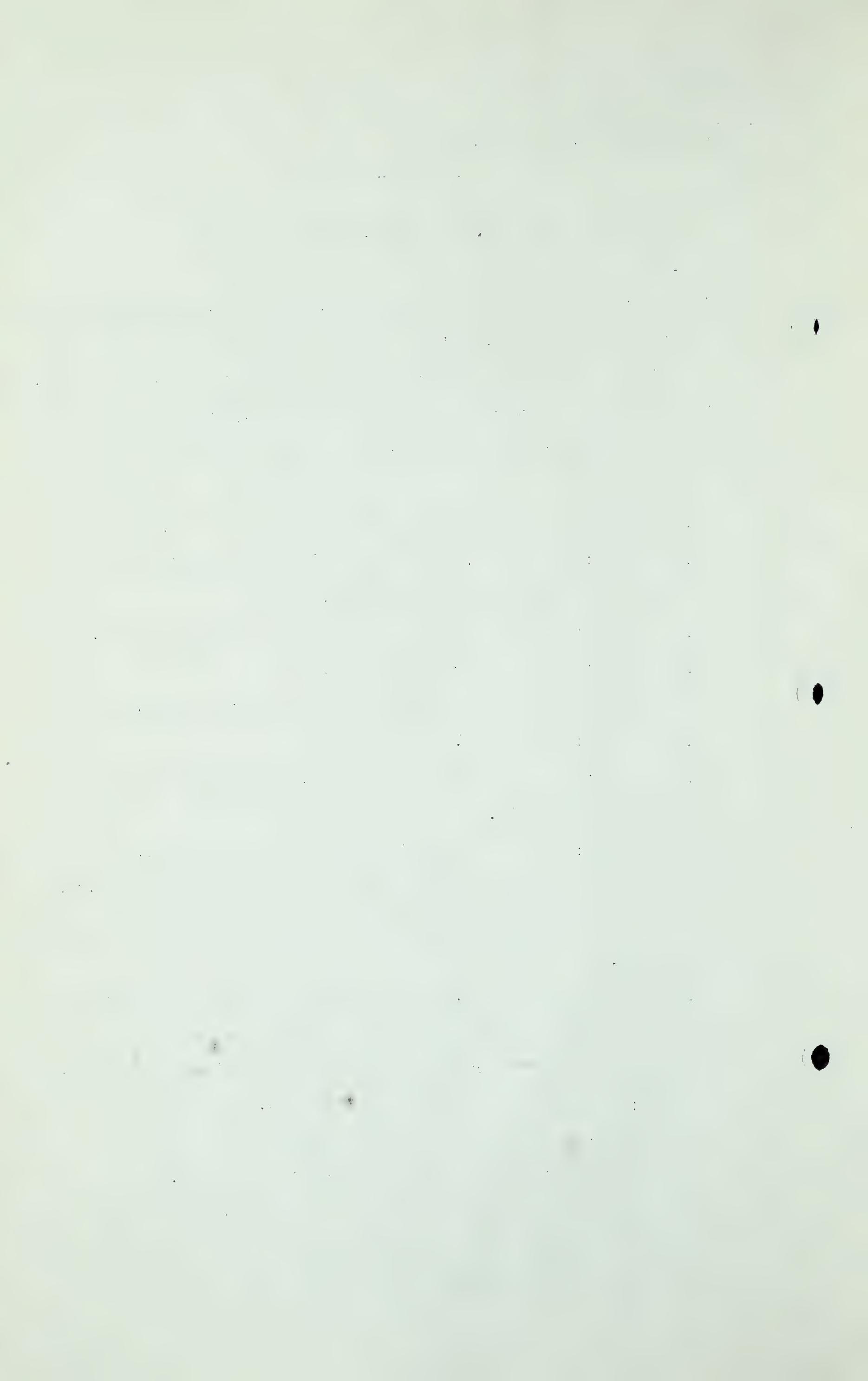
MR. FENERTY: Yes, and I think you will remember that I brought out, even if you did it almost continuously, you could never get it because those things are always changing.

WITNESS: I think that is right.

Q MR. FENERTY: You were not present?

A I heard the whole of Professor Stewart's evidence.

Q Now assuming for the moment that that would be a proper method of working out the reproduction costs, I want to tell you some information which I have and I want to ask



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Cross-Exam. by Mr. Fenerty.
Cross-Exam. by Mr. McDonald.

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you whether you have heard of it or have considered it; the information I have is with reference to all high pressure gas lines and distributor systems, the following charges have now been done away with:- 10% War tax , 8% sales tax ., rebate of one half the duties of 25% or 12 $\frac{1}{2}$ %; have you heard of that?

A In general terms I would agree, yes.

Q Assuming that to be so and assuming that a proper application of the reproduction new cost require adjustment from time to time, I suggest to you that the figures as to value based on 1943 are already completely obsolete.

A Yes.

Q And that not only are they obsolete but that with the knowledge we have now of those factors, they represent entirely abnormal figures as compared with the figures preceding and as compared with the figures today.

A Well I have made no comparison of costs relative to items of equipment today as compared to what they were in 1943 but I would expect what you suggest would be the case.

Q You have not made or given any attention to offsetting any figures from that date against these others?

A No.

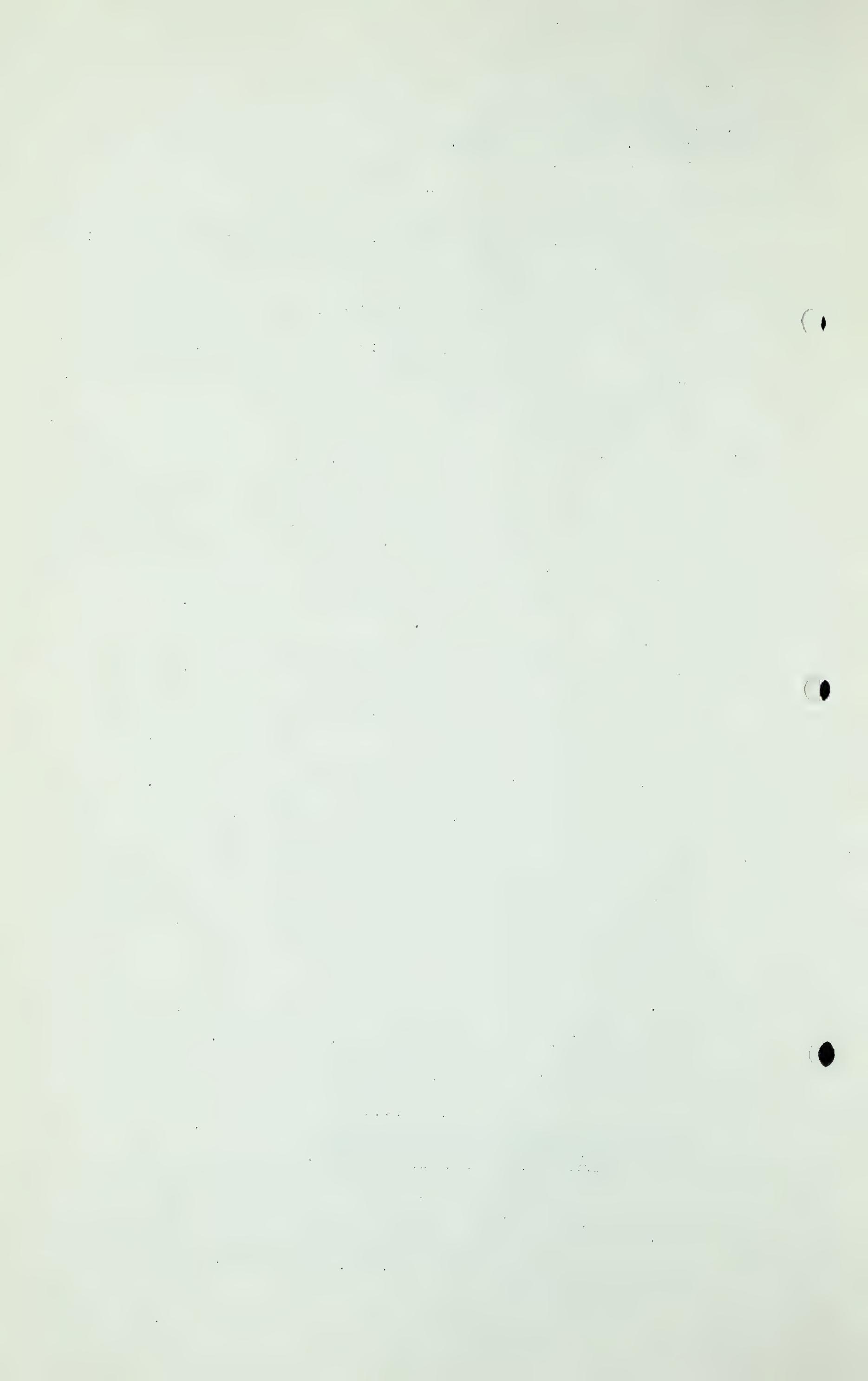
MR. FENERTY: That is all, thank you.

THE CHAIRMAN: Mr. McDonald?

.....

CROSS-EXAMINATION BY MR. McDONALD.

Q Do I understand you, Mr. Hamilton, that you have carried forward in your figures in your Exhibit 124, that is the Revised Edition, this \$280,000.00 historical costs charge against Madison?



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Cross-Exam. by Mr. McDonald.

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A Yes.

Q That is included?

A We have already allowed in our preliminary submission the whole of what the company elected to deal with as capital costs of the Madison A Project. They are all in our first tabulation.

Q Now referring to Exhibit 146 and taking the summary on the first page, do I understand that in Group A you are fairly well in agreement that that should be added to the historical costs?

A No, sir. I am of the opinion that of those, without regard to other factors, there are items which would be admitted by way of an adjustment.

Q Yes, I understood that was your attitude with regard to Group B and with regard to Group C but that also applies to Group A?

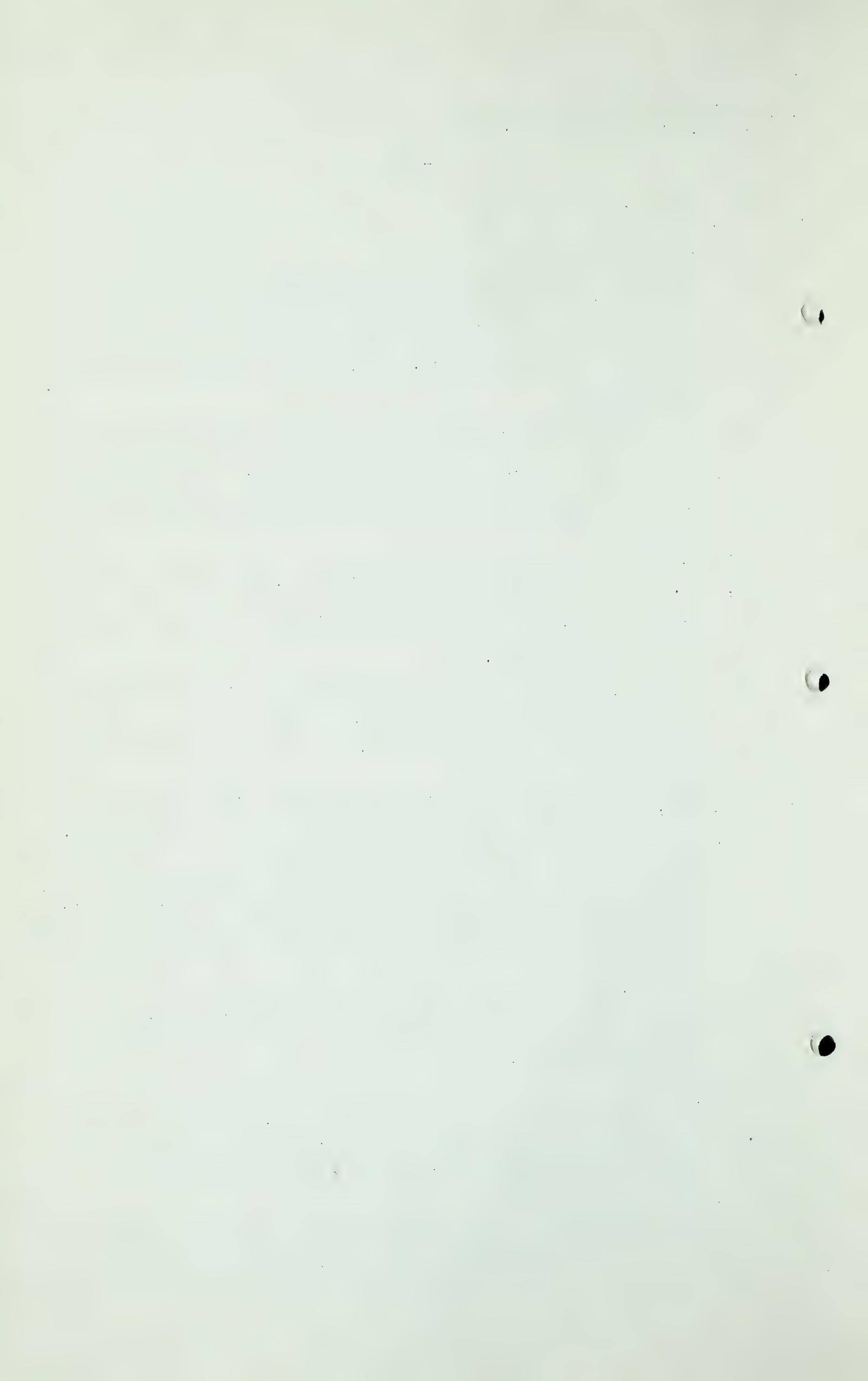
A No, sir, I think the company's position with regard to Group A is much stronger than with regard to the other groups, for the reason they have demonstrated a treatment which would suggest that they have expensed items of that character, where they are unable to so demonstrate with regard to items in Group B.

Q And Group B, the company is in a less strong position, I will put it that way.

A Yes.

Q And with regard to Group C, do you consider that is something which should be added, the expenses in connection with the Girbotol?

A Well some weeks or some months ago, in discussing this question of the Girbotol experimentation and alteration,



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I think I expressed the view under examination by Mr. Chambers that the company might well be entitled to an element of going value as an addition to the historical costs figure which I presented.

Q Yes.

A But that I was not in a position to evaluate the going value. I feel that the going value attached to the Girbotol plant was an expense in which the company had a fairly strong position, because of those very expenditures but certainly I would think that it was an obvious duplication if we gave them those elements which had been expensed and gave them going value in respect to the same items.

Q Now with regard to Group D, what is your final conclusion there?

A There is a special circumstance relating to Group D in that the company made its election and when I say "the company" I am referring to Royalite. Royalite made its election to deal with those in a certain fashion twelve months after the Madison Company had been created and after it had commenced operations, and it seemed to me they were committed to the treatment they then made.

Q Then in your final analysis are you prepared to make any addition at all to the figure set out in Exhibit 124 for historical costs?

A No, sir.

Q You are not?

A No.

Q That is your final view, your conclusion is that the facts for and against are so even that you would not recommend an addition to the figures set out in Exhibit 124?

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Cross-Exam. by Mr. Blanchard.

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A Yes.

MR. McDONALD: That is all, thank you.

THE CHAIRMAN: Mr. Harvie?

MR. HARVIE: Nothing.

THE CHAIRMAN: Mr. Steer?

MR. STEER: Nothing, sir.

THE CHAIRMAN: Mr. Blanchard.

.....

CROSS-EXAMINATION BY MR. BLANCHARD.

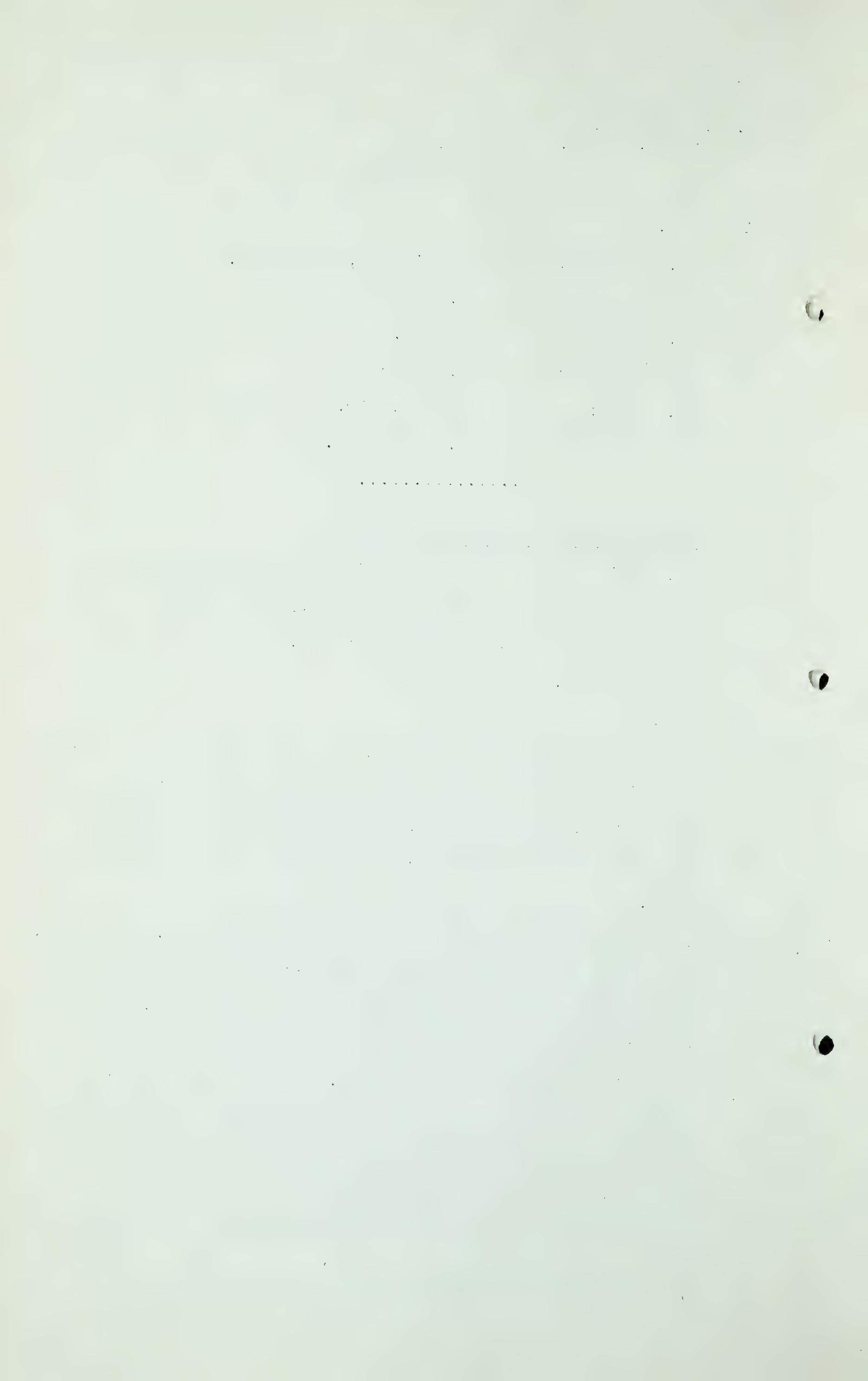
Q Mr. Hamilton, as I understand it in your conferences with officials of the company a year ago, these matters of the historical costs which were in at \$1.00, were considered at that time.

A Yes.

Q And you say that at that time, the officials of the company were in agreement that there were offsetting factors on the other side, that is where, cases where you were allowing very much larger capital costs than the actual value of the item.

A I perhaps should qualify that to this extent, Mr. Blanchard, that there was a demonstrable under-valuation with respect to all the items which were expressed at a dollar. There was, in our view at least, an over-valuation of certain items in the matter of principle. Now we were never able nor would anyone else now be able to evaluate those factors exactly to determine whether they did in fact offset one another, whether one offset the other in an opposite direction but we felt they did substantially offset each other.

Q And you gave an example this morning of one item where



R.W. Hamilton,
Cross-Exam. by Mr. Blanchard.

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historical costs were I think some three times the reproduction new cost fixed by Mr. Hill, that was in connection with the auxiliary building that was moved from the Compressor Number 3 station to the Number 1 Plant and then was, I take it, joined with another building there, is that correct?

A Substantially, yes.

Q And in that particular case, the valuation given by Mr. Hill for reproduction costs new, if I am not mistaken, was about \$3700.00?

A Correct, sir.

Q And the actual cost of moving that building was \$6700.00, moving it and rebuilding it?

A Yes.

Q Was \$6700.00?

A Yes.

Q And in your computation of historical costs you allowed the full amount.

A We allowed \$10,000.00.

Q You allowed \$10,000.00?

A Yes, but in doing that we felt we were over-stating historical costs.

Q Oh yes.

A We recognized the money had been spent but we were not prepared to recommend that \$10,000.00 represented the historical cost.

Q I see. Now in the event that these items which were booked at nominal figures, in the event that they are allowed, is there any way in which there might be a revision of those items, like the auxiliary building mentioned, to arrive at what would be the true historical

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Cross-Exam. by Mr. Blanchard.

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cost?

A I would say, sir, that it would take the combined efforts of an engineer and an accountant to reach even an approximation. I imagine that the circumstances are such, or I know the circumstances are such, that an exact approximation is impossible in the nature of things, due not only to the problems inherent in splitting the expenditure between capital and revenue elements but also by reason of the fact that due to the complexity of the whole problem, the records were not kept with that degree of precision and accuracy as might otherwise be the case and that is not intended to reflect at all on the management or the accounting staff of the company.

Q Have you considered at all the historical costs relating to those costs which arise out of Project A in relation to the contract which was made between Imperial Oil Company Limited and the Government, the Dominion Government?

A Yes.

MR. BLANCHARD: And I think that is an agreement which I think should probably receive the consideration of this Board and should go in. I have a copy of it here. I do not know whether Mr. Chambers will agree that this is a copy.

MR. CHAMBERS: I have not an extra copy. I had one with me but I gave it to Mr. Steer.

MR. BLANCHARD: I have one here and if there is no objection on the part of my friends, I might have it marked merely as a copy.

MR. CHAMBERS: I have no objection. As a matter of fact, we have only a copy but I am content to agree that

R.W. Hamilton,
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that is a copy of the original document.

MR. BLANCHARD: Thank you.

MR. CHAMBERS: And we will get some copies made.

THE CHAIRMAN: You say you will get copies made of that?

MR. BLANCHARD: I can, although I have no way of making copies myself.

MR. CHAMBERS: I might say that I will get copies made.

MR. HARVIE: And will you give us a copy?

MR. CHAMBERS: Yes.

MR. HARVIE: Just what is it?

MR. BLANCHARD: It is an agreement between the Imperial Oil Limited and His Majesty the King, and the British American Oil Company.

MR. CHAMBERS: With regard to the British American, I cannot vouch as to their part of it.

MR. HARVIE: I would like to see what is being presented.

MR. BLANCHARD: I am only concerned with it at the moment in connection with the Royalite operations and the removal of the Number 2 Plant.

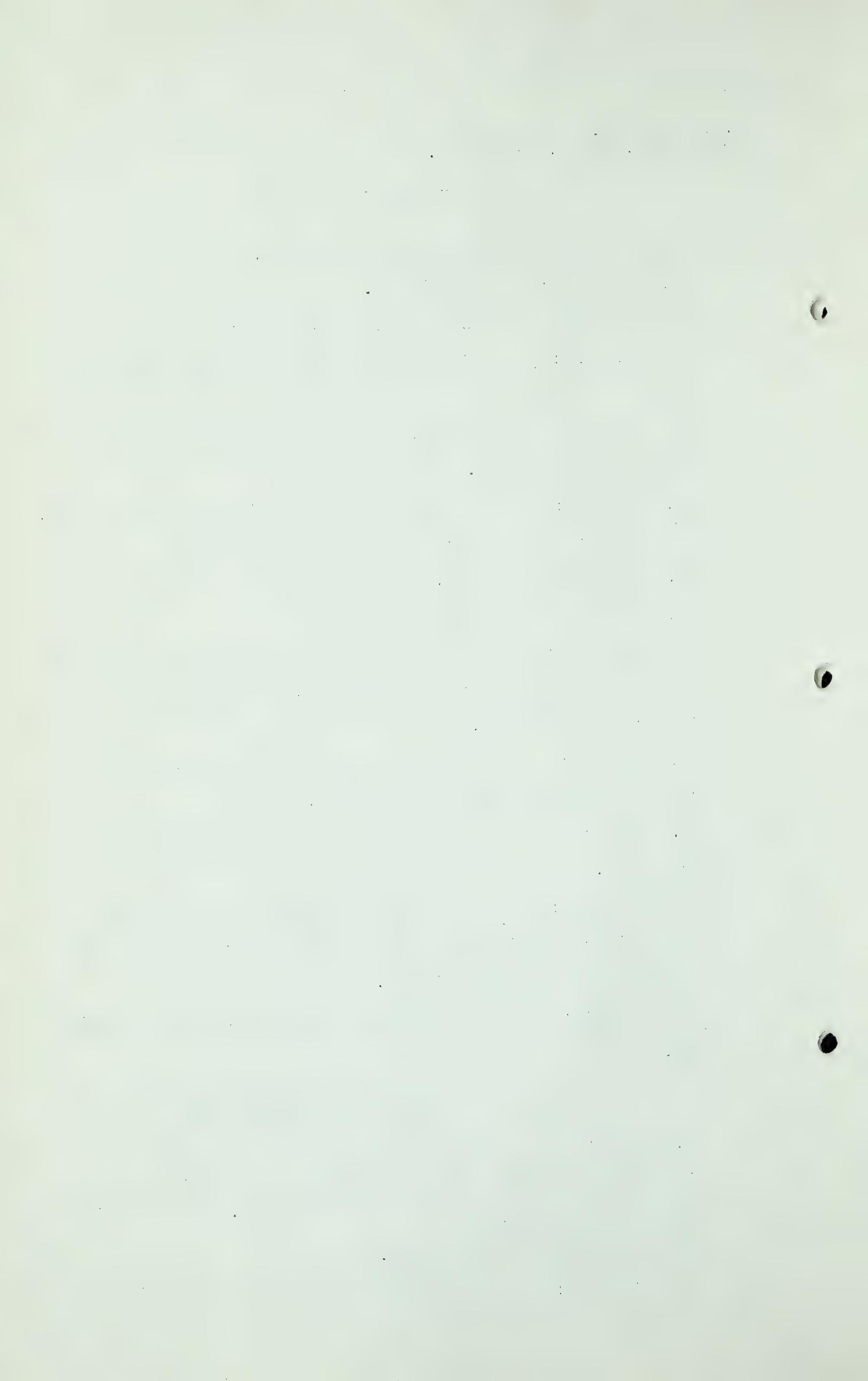
THE CHAIRMAN: I will admit it and it will be Exhibit 147.

DOCUMENT, Agreement produced,
HERE MARKED EXHIBIT 147.

MR. HARVIE: And so far as we are concerned I will check the copy and let the Board know what I have to say as to it later.

THE CHAIRMAN: All right.

Q MR. BLANCHARD: Now you had something to say this



R.W. Hamilton,
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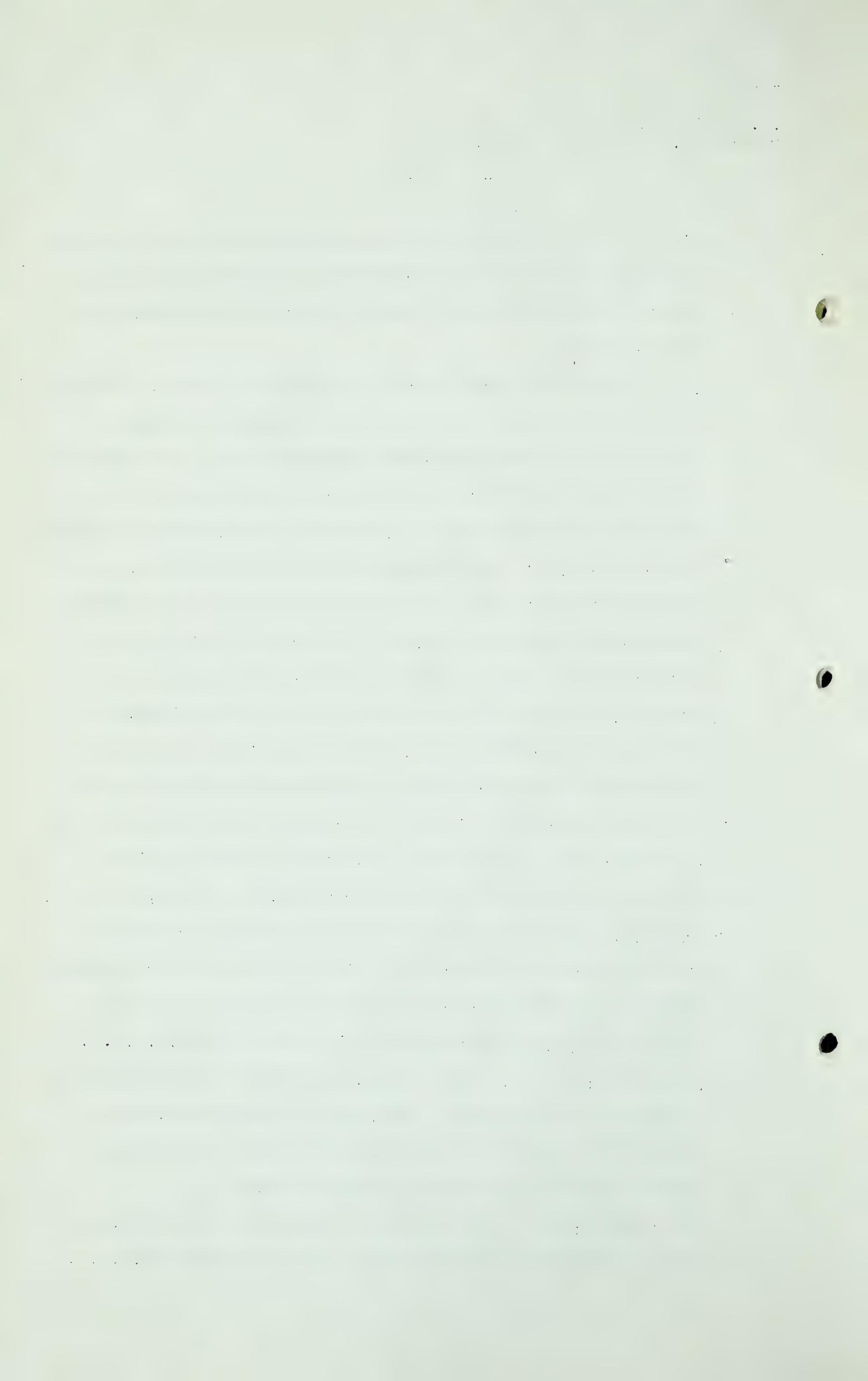
- 5354 -

morning with reference to that agreement and what was done pursuant to that, in the allocation of costs and in the allocation of the money received from the Government, is that correct?

A Yes. I may have gone too far in expressing what I thought as to the agreement and if so I do not want to press it unduly, but I had to come to some conclusion in my own mind as to what the effect of the whole transaction was and I think we are interested in the Allied War Supplies contracts in two respects. As I envision the whole of Project A, it was entered into with a view to consolidating the Number 1 and Number 2 gasoline plants. The Imperial Oil Company undertook to instal a plant at Calgary and to cause its subsidiary, which would be Royalite and its subsidiary, Madison, to do certain things. His Majesty's Government undertook to purchase certain products of this new plant in Calgary at certain prices or prices to be determined in a certain way and they also undertook to make a certain cash contribution towards the undertaking. I should, in fairness, say that the method of calculating the contribution was such that the contribution was geared to certain specific expenditures which had to do with the gasoline plant but in my view, taking the thing as a whole

MR. CHAMBERS: Just a moment, I think the contract has to speak for itself now. While we are not in Court, I suggest that that is so even here and that this witness should not give us what the contract means.

MR. BLANCHARD: That may be but I think the witness, as an accountant, can say how it might have affected , , .



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Cross-Exam. by Mr. Blanchard.

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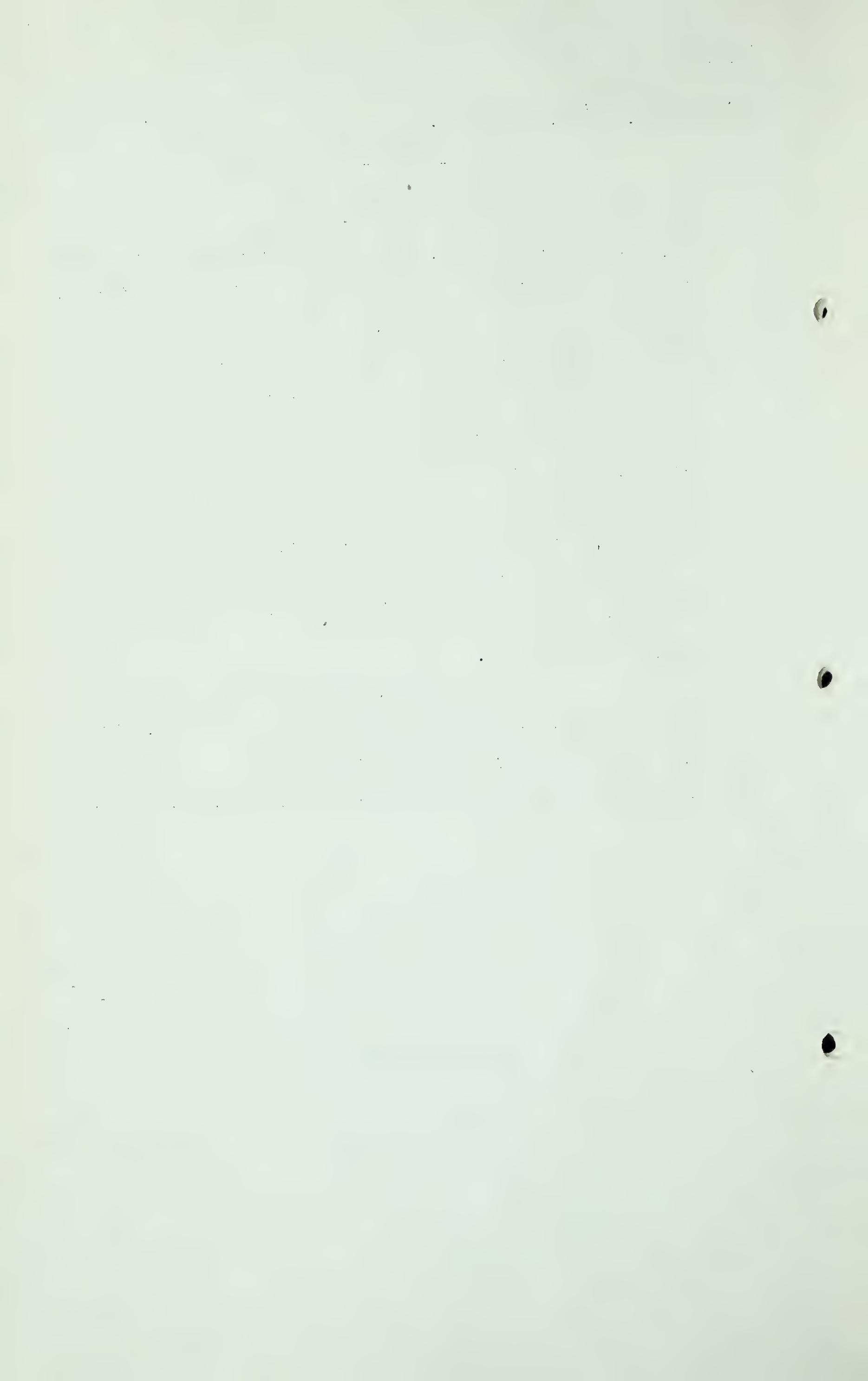
THE CHAIRMAN: What he did.

MR. BLANCHARD: Yes, and the historical costs as allowed in connection with these assets involved in the Project A.

WITNESS: As I say, I do not feel qualified to deal with the legal significance of the various clauses of the contract but the net effect of it from a practical point of view appeared to be that Imperial got certain considerations from the Dominion Government by way of a cash contribution and by way of a market for a certain product and in consideration for that, Imperial constructed a plant and this is the part that we were concerned with, it undertook to see that its subsidiaries would construct certain plants also.

Now then, the particular subsidiary that we are concerned with is the Madison Company, with respect to which the construction costs of certain assets amounted to, according to the records, \$280,000.00 odd.

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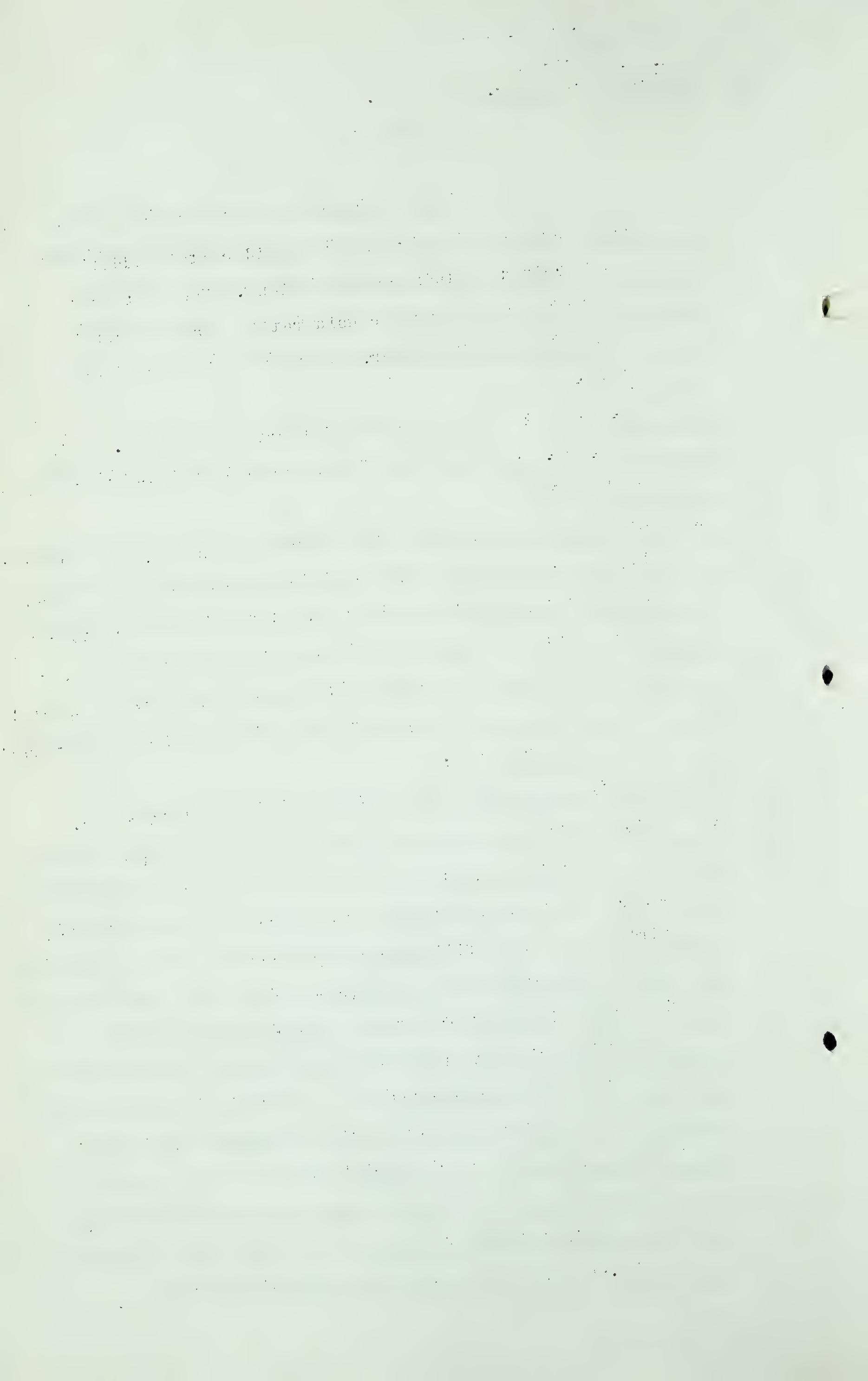
Now that in my view is just part of the whole scheme for which Imperial did certain additional things and received certain considerations. Now whether you can segregate one of those considerations from everything else or not is another matter, but that is just one part of the story.

MR. HARVIE: I might interrupt you there. This \$280,000.00, is that before or after giving credit to the 60% contribution?

A As I endeavoured to outline a few minutes ago, as I understand it, the contract provides that the contribution to be made by the Dominion Government is calculated with respect to certain costs which have to do solely with the gasoline plant, consequently the expenditure which was incurred with respect to the plant now owned and operated by the Madison was not subject to the contribution.

Q That is my understanding but I wanted to get it clear.

A Yes, and it may very well have been and I am not suggesting at the moment it was, it may very well have been that a subsidiary was called to do something which of itself was uneconomic by virtue of some affiliate company getting a compensating benefit. The other factor that I endeavoured to outline this morning having to do with Project "A" was that there was no apparent recognition given to the fact that some part of the money spent may have been the recognition of a capital loss that had been sustained by virtue of the fact that investment in various items of the plant in its original form had been abandoned by virtue of the desire to do something new and the only costs that were incurred were recognized as being either expense or capital, no element of capital loss being recognized.



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Q MR. BLANCHARD: And what you have intimated I think is that your figures as to historical costs has not taken into account any such capital loss ?

A Nor any part of the cash contribution.

Q Nor have you taken into account any consideration the Imperial Oil Company Limited may have received for causing its subsidiaries to do certain things ?

A Yes sir.

Q Now to go to this group - well Group "B". Let us deal with that for a moment. As I understand it there are no records showing that these items have been expensed at all ?

A That is correct.

Q That is correct, and that is the respect in which they differ from your Group "A" ?

A Yes sir. There is this too, I perhaps should say too, sir, that Group "A" are not only items with respect to which they have shown a tendency to expense, but they are a class of items to which we might expect them to expense as compared with Group "B".

Q Now these records of value that are shown in the right hand column. They appeared in the books of the Company, have they ?

A The column entitled "Record Value" is the value at which they appear in the books.

Q They did appear in the books ?

A Yes sir.

Q And those values appear under specific dates or in what way ?

A The dates at which they would appear on the books would be the dates on which the item was restored to the account. In other words date of discovery rather than the date of acquisition.

Q Those items were set up in the books at the time you went into

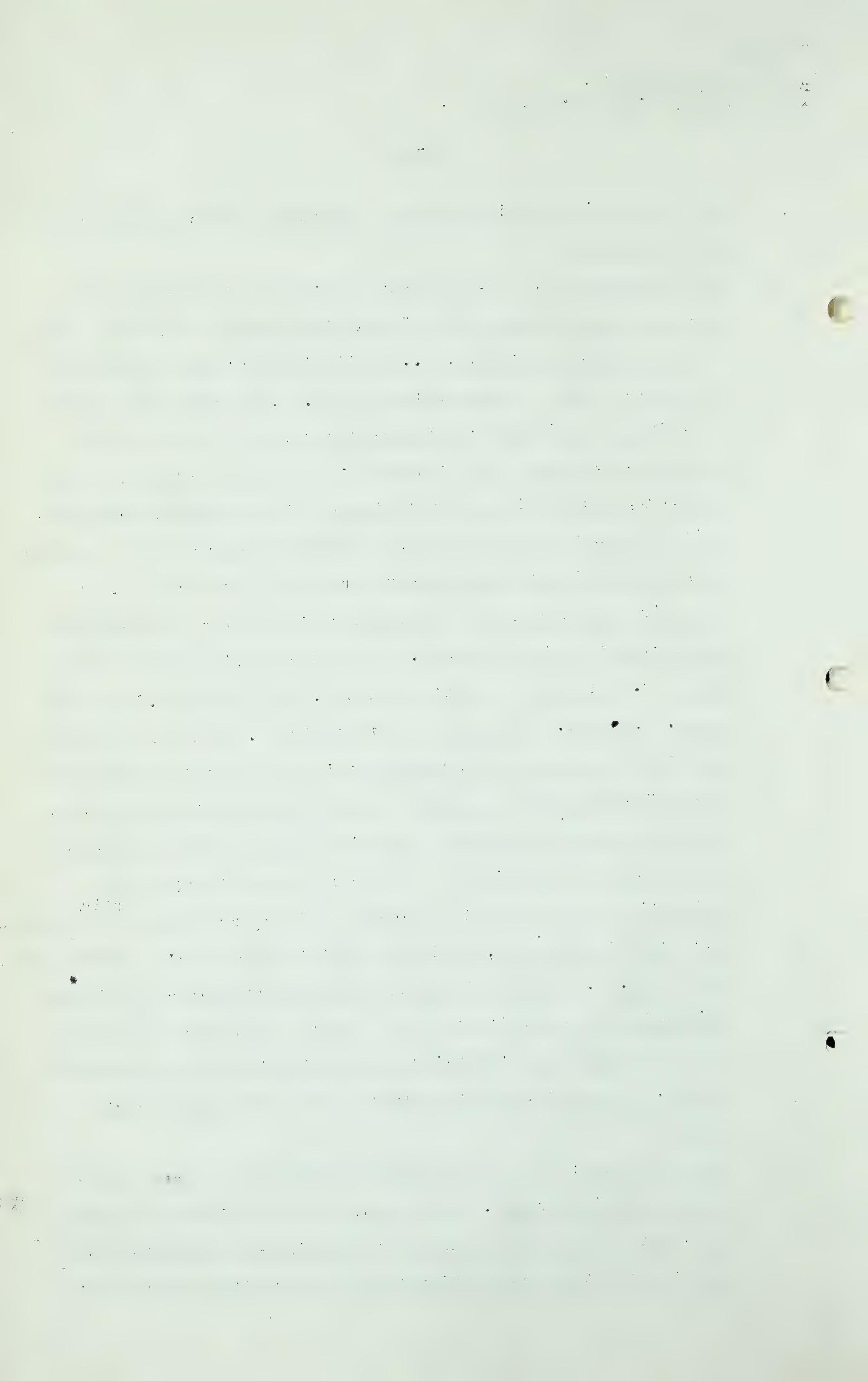
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the question of historical cost and discussed this matter with the officials?

A Not altogether, sir. For example towards the lower part of the first page of Group "B" you find one tank No. 9-14-232 with a record value of \$10.00.. Following that a soda mixing tank at \$25.00. Then a separator at \$10.00. There are other items of the same kind which will demonstrate what I have in mind. Those will be items that were set up at some date prior to our survey, because if I am not mistaken in every instance when an item was set up on the books as a result of comparison of Hill's appraisal with the books they were set up at a dollar. I enquired from employees of the Royalite Company as to why they selected the figure of \$25.00 as a record figure rather than a dollar. It seemed a little unusual. You take \$25.00, why not \$30.00, or \$1.00, why pick on that figure. And I was informed that over a period of time when this sort of thing occurred they endeavoured to place on them a record value which would represent an absolutely minimum appraisal value and that of course was not done I imagine with any careful examination of the situation at all, but the Bookkeeper in charge of that particular department would say, well a soda mixing tank can't be worth less than \$25.00. I think it would be more satisfactory if he used hind-sight and put it at a dollar and we would know where we stood, at least that I think was in his mind and was explained to me. I am not suggesting that was done with engineering advice.

Q MR. BLANCHARD: I am not sure I understand part of your evidence this morning. Is it your view that items of expense that have already been allowed by you in your historical cost figures may have application to these very items that are in



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Group "B".

A It is possible. It is one of three alternatives. I should perhaps in fairness say, probably the least likely of three alternatives.

Q And are Madison able to show you that is not the case ?

A No sir, they are unable unfortunately to show us where the original cost was charged.

Q Now in Group "C". There is one item there of \$32,000.00. That is for the contaminated chemical ?

A Yes.

Q Which was mentioned this morning and referred to by Mr. Kirkpatrick in his evidence ?

A Yes sir.

Q That has never been transferred to Madison as I understand it?

A Physically or legally or....

Q Physically.

A No sir.

Q It has not been passed over to the possession and taken into the inventory ?

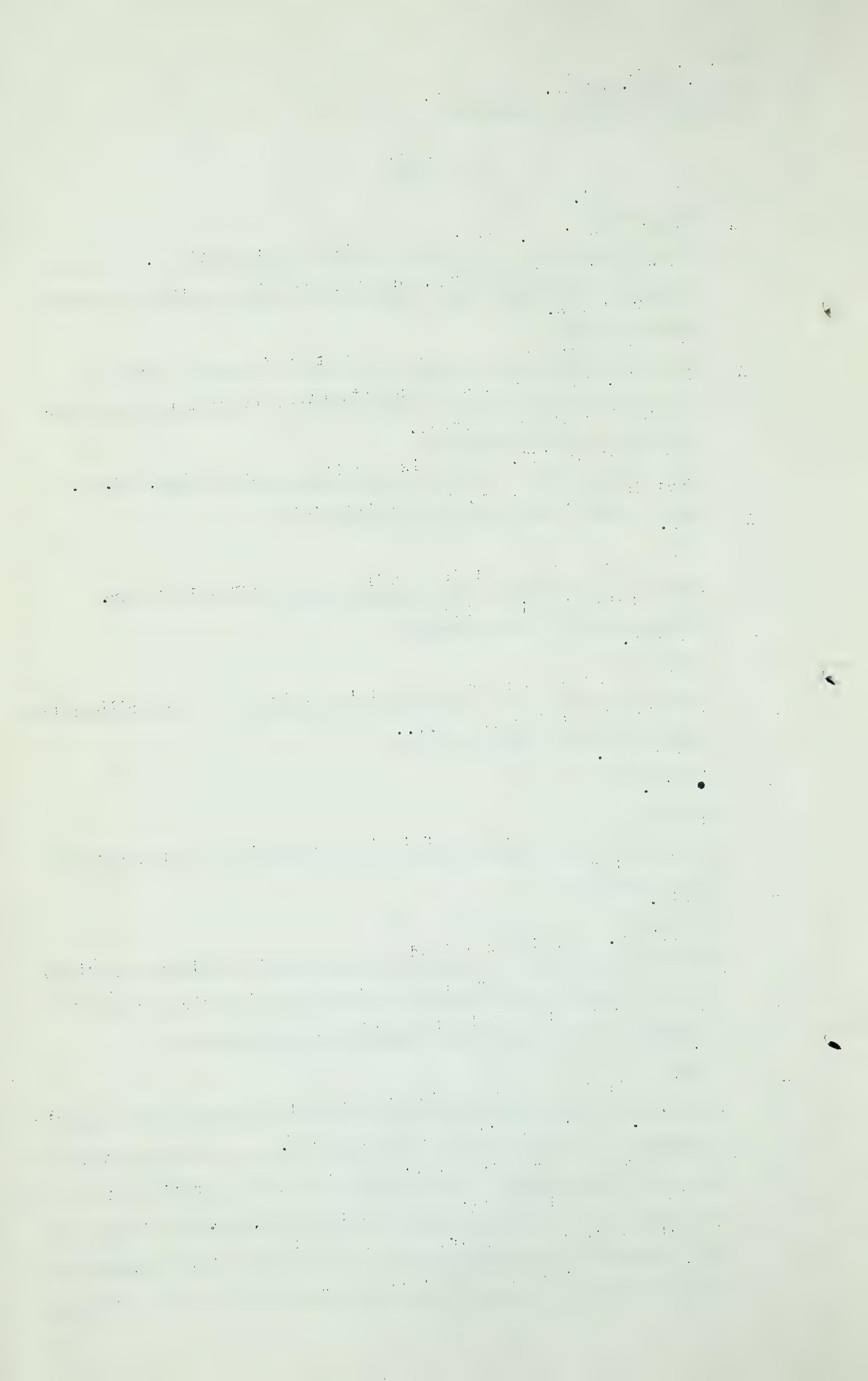
A No sir.

Q Of Madison. Was it explained to you then by Madison officials why that should be charged as part of the historical cost ?

A You mean at the time this submission was prepared ?

Q Yes.

A I believe it is rather difficult for me to express the Company's viewpoint. I will do it as well as I can. It was suggested to us there was incurred in experimentation and alterations to the Girbotol plant this additional amount of \$52,958.00 which was not included in the historical cost on the plant records of Royalite at the time the plant transfer was effected and they



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felt not necessarily that that amount should be added but these factors should be given consideration.

Q That is it was necessary to do certain experimenting to make the Girbotol plant efficient ?

A Yes sir.

Q And it is on that basis that these claims are made ?

A Yes sir. I think perhaps we can rationalize one step further. Certain it is that the \$32,319.35 is not a valid item if it relates to the chemical..

Q No.

A Because the chemical is not used or useful any more, but if as it might be argued that \$32,000.00 is an element of the cost of the Girbotol as a functioning unit today then there is perhaps some argument there.

Q And you suggest that the only way it could be taken into account with propriety would be to make some allowance for going value by reason of experiments that have inured to benefit of Madison in the end ?

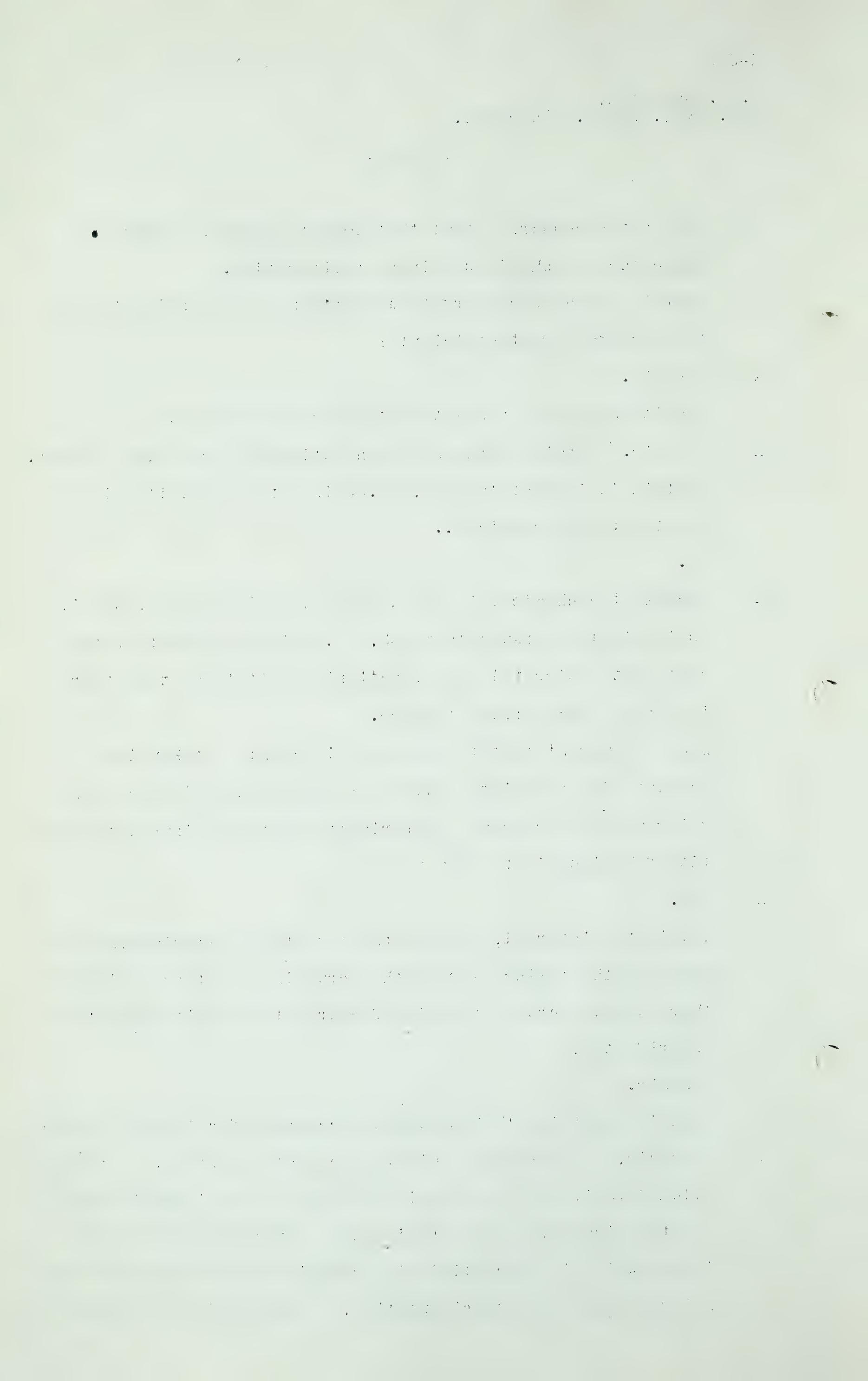
A Yes.

Q And in the interval, between the time these experiments were made and the taking over of the scrubbing plant by Madison there would accrue a benefit of course to Royalite from those experiments ?

A Yes sir.

Q That is something that should be accounted for in some manner ?

A Yes sir, and perhaps we might go one step further. I think we alluded to it this morning in that one of the justifications for the high rate of return is that a business of this type is one which is susceptible to economic hazards which involves a large amount of experimentation, a good part of which may be



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totally abortive, so that they are perhaps entitled to a higher rate of return than a more stable and established business.

Q. Or that some allowance should be made for going value ?

A. Yes sir.

Q. Now I think you said in summarizing the effect of this agreement Exhibit 147, that it was an agreement which contemplated the moving of No. 2 plant to the site of No. 1 plant and that was one of the provisions of the agreement ?

A. Yes sir.

Q. I think possibly that is not expressed in the agreement. In implementing the terms of the agreement I think, sir, that was done, but it is not provided for, that it must be done in the contract. I have not had an opportunity, Mr. Chairman, of going over and studying this agreement and what its effect may be on this question and I would like to have an opportunity of doing so.

THE CHAIRMAN: Well I think in a general way it is but is that part of your case closed, is it ?

MR. BLANCHARD: Yes, but I would like to have an opportunity of studying that.

THE CHAIRMAN: All right.

CROSS-EXAMINATION CONTINUED BY MR. CHAMBERS:

Q. There are one or two questions I would like to ask arising out of the last discussion. As I understand it, Mr. Hamilton, the thought that you throw out is this, that this Exhibit 147 is an agreement between His Majesty the King as represented by the Minister of Munitions and Supply of the one part and the Imperial Oil Company of the other part. And Imperial undertook

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to do certain things itself and caused its subsidiaries to do certain things ?

A Yes sir.

Q And as a result of which certain products would be handled by the subsidiaries and ultimately sold by Imperial Refinery ?

A Yes sir.

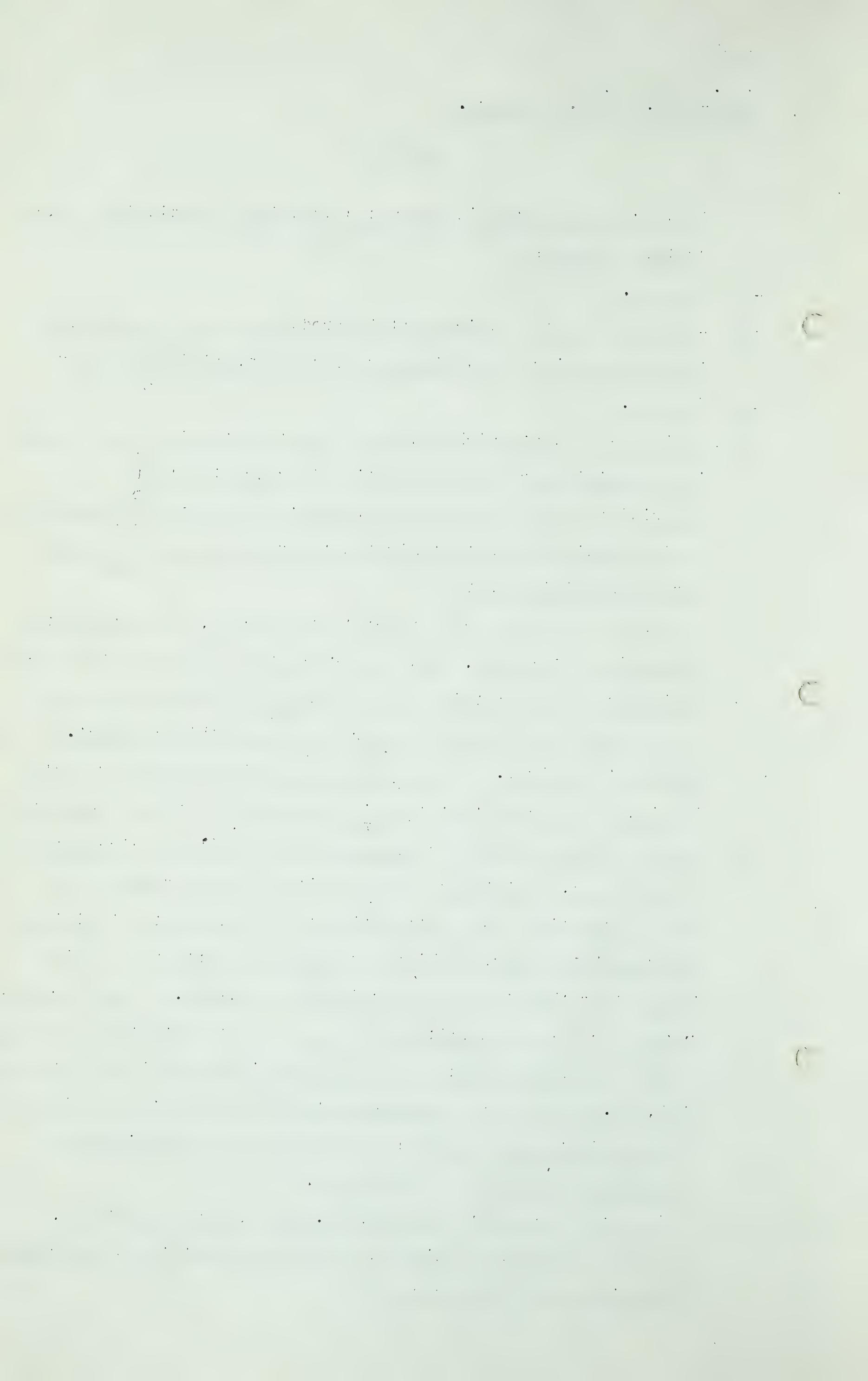
Q And is the thought which you are purporting to give that there is a suspicion or some reservation in your mind that the Imperial by this agreement undertook to cause its subsidiaries to do certain things that might not have been good business for the subsidiaries ?

A I do not know that I can answer that directly, but perhaps to phrase it in this way, that the agreement resulted in the subsidiaries ^{they} doing something which perhaps/would not have done had it not been for the other provisions of this contract.

Q You say they might. You have no specific evidence or fact in mind to indicate that that is the effect of this agreement?

A Well I think perhaps we can take into account two circumstances. First of all, that the contract in itself does provide for a very substantial cash contribution to be made by the Dominion Government to Imperial which was geared to certain expenditures other than those which related to Madison. The other circumstance which suggests itself to me is the fact that comparing 1942 with 1944 the Madison Company has increased its plant by \$287,000.00 and I am wondering whether or not that expenditure could be justified solely on the ground of increasing the supply of residue gas to the market.

Q Is it not a fact that the \$240,000.00 odd, whatever it was, that was charged to Madison does not represent the whole cost for making the change over ?



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A I would say it represents dollars spent but whether it represents the historical cost of the asset useful is another question. I think I should say that in fairness to Company officials that there perhaps has been a tendency to regard historical cost as being synonymous with dollars spent and I think it is important to recognize that there may be a very important significant differentiation to be made between the two terms.

Q Now Mr. Hamilton, I would like to approach it from this standpoint and this is no criticism of your reply. As I understand it you have expressed the view that adjustment of historical cost is the preferable of the three methods the Board should adopt in fixing a rate?

A Yes sir.

Q Now you will agree with me then I take it, that if the Board comes to that conclusion that that is the proper method, that irrespective of what the Company thinks or the officials think or you think, that the Board is entitled to form its judgment on all the facts?

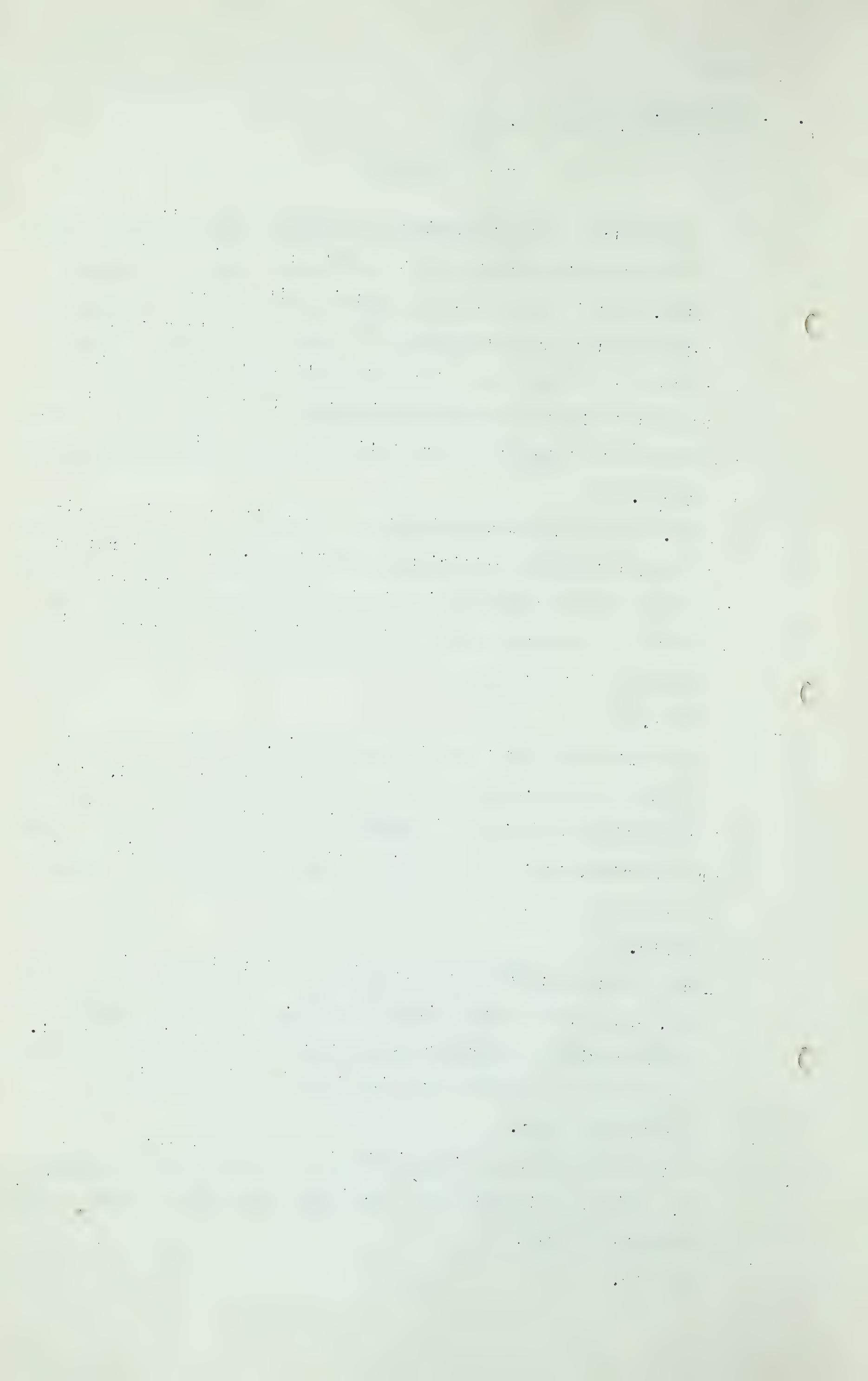
A Yes sir.

Q And as I understand your conception of historical cost to be then, and you correct me if I am wrong. That you take the actual original dollars spent as shown in the capital account. That would be one way of getting the historical cost?

A That is the start.

Q That is the start and then if there has been anything added to it, any new equipment or so on, that would also be part of the historical cost?

A Yes sir.



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Q Then if there were items of equipment that weren't charged to expense, and if those items of equipment are used and useful today, if you could find out where they have been charged to expense, would you include that too?

A Yes sir.

Q And that would be the ideal way, and we would have very little difficulty in setting up historical costs, if books were kept that way in the past?

A Yes sir.

Q Now, what I am suggesting is this, that there is evidence that there are so many items of equipment?

A Yes.

Q And that the Board is entitled to know so far as the records possibly can show, what those items originally cost?

A Yes sir.

Q Now, that brings me to this point in connection with this Project "A", I think perhaps that we had better refer to the contract, which is Exhibit 147, and I am not asking you to interpret the contract, but I am putting or I am going to put to you different matters for the purposes of the discussion, Mr. Hamilton. It is obvious from the recitals in the contract, is it not, that the Government wanted available a certain particular kind of product?

A That is right. That was the focal point of the contract.

Q And in order to get that product that they envisaged, there had to be a substantial amount of new equipment installed in the Imperial Refinery?

A Yes sir.

Q And they call that in the agreement for definition purposes, "the plant"?

A Yes sir.

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Q There was not much use to have that plant installed in the refinery unless it had a product available for it from Turner Valley, and I think there was provided by this agreement that there would be certain things done in Turner Valley, and that is what they call in this agreement, Exhibit 147, an auxiliary plant, do you recall?

A Yes sir.

Q Now this auxiliary plant consisted of certain improvements or installations in the absorption plants themselves?

A Yes sir.

Q And the absorption plant, in the case of this company, was Royalite. And then in addition, having gotten the equipment in the refinery, and having gotten the additional equipment in the absorption plant, there was also envisaged that you would make certain changes in the gathering system?

A Yes sir.

Q And that was part of the auxiliary plant as defined in this agreement, do you recall that?

A Yes sir.

Q And I am reading from clause 4 of Exhibit 147, which says:

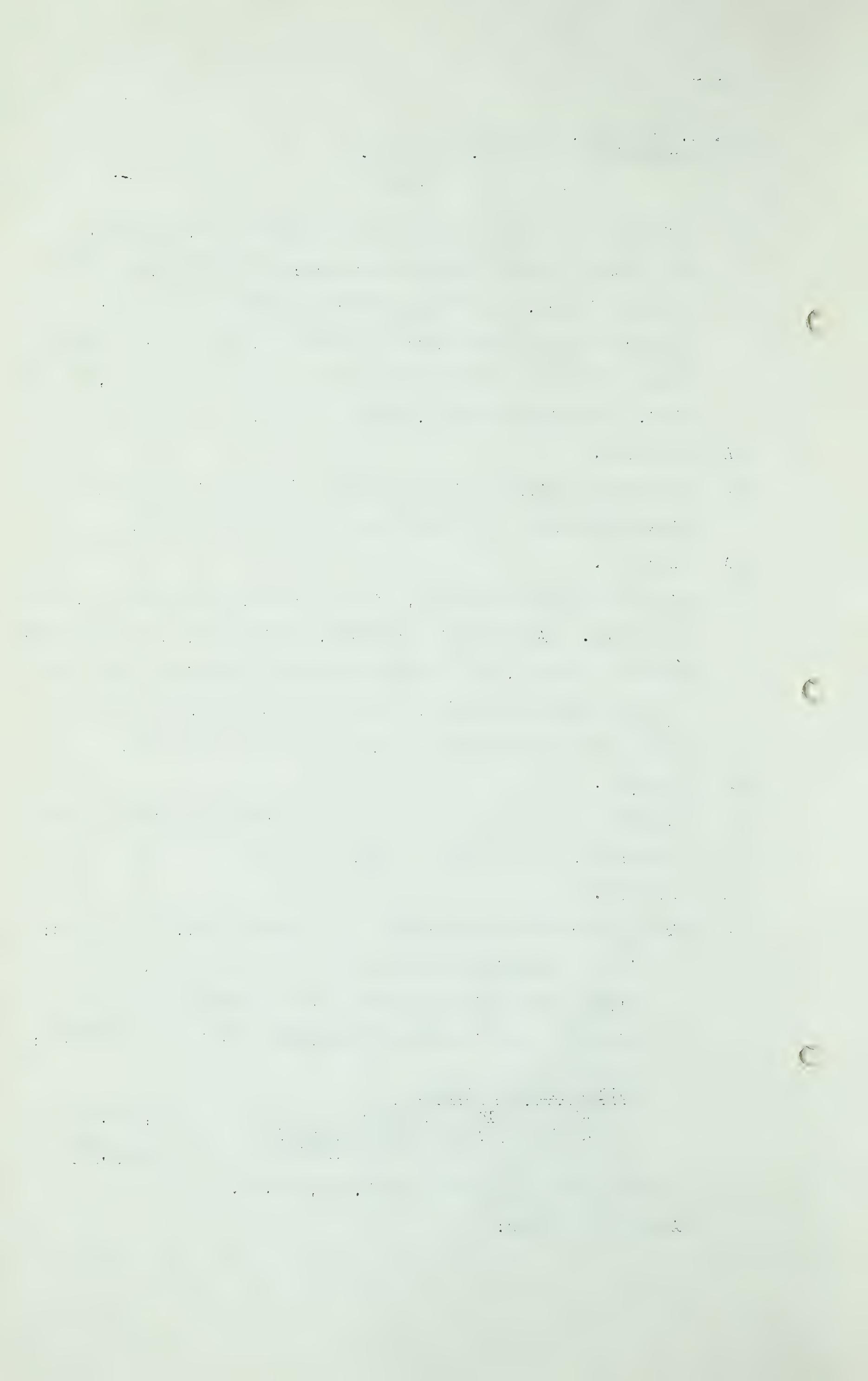
" Imperial estimates that the total cost of the Plant and auxiliary plants to be constructed by the Imperial and its said subsidiaries will be as follows:

IMPERIAL OIL LIMITED

Alkylate Plant Proper	\$1,319,000
Auxiliary Plant within Imperial	
Refinery Limits	<u>175,000</u>

and the total of those was \$1,494,000.00.

And then it says:



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"ROYALITE OIL COMPANY LIMITED

Auxiliary Plant

\$470,000"

and then:

"VALLEY PIPE LINE COMPANY LIMITED

Auxiliary Plant

69,000"

and the total estimate was \$2,033,000.00. That was the estimate of the Plant and the auxiliary plants.

Now then, and this is the part, Sir, that will become important in my submission later on.

" The parties hereto hereby agree that the amounts expended or to be expended by Royalite Oil Company Limited for compressors and the accessory pipe-lines installed to boost gas from the south end of the Turner Valley to the No. 1 Absorption Plant of the Royalite Oil Company Limited located near the town of Turner Valley in the Province of Alberta estimated at the sum of One hundred and Forty-eight thousand dollars (\$148,000); the amount expended or to be expended for the gathering pipe-line system in and from the north end of the Turner Valley estimated at the sum of Eighty-eight Thousand Dollars (\$88,000) and the amount expended or to be expended for the return dry or processed gas pipe-line from the said Absorption Plant of the Royalite Oil Company Limited to the north end of the Turner Valley estimated at the sum of Seventy-five Thousand Dollars (\$75,000), (the whole forming a present estimated expenditure of Three Hundred and Eleven Thousand Dollars (\$311,000), and all expenditures made or to be made by the Valley Pipe Line Company Limited estimated at the sum of Sixty-nine thousand Dollars (\$69,000) are excluded from the operation of the provisions of Paragraph

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"(b) of Clause 11 of this agreement."

And that is another clause that will become important.

"In consequence Imperial estimates that for the purpose of this contract the total cost of the plant and of the auxiliary plants constructed by it and its subsidiaries will be One Million, Six Hundred and Fifty-three Thousand Dollars (\$1,653,000)."

And then if/turn to 11(b), ^{we} the significance of that \$311,000.00 will become important, will become apparent, rather.

" Within one year"

and I won't read all of this,

"within one year after the cessation of hostilities in the present war, the parties shall proceed to arbitration in the manner set forth in Clause 22 hereof to determine the actual peacetime value to Imperial of the Plant"

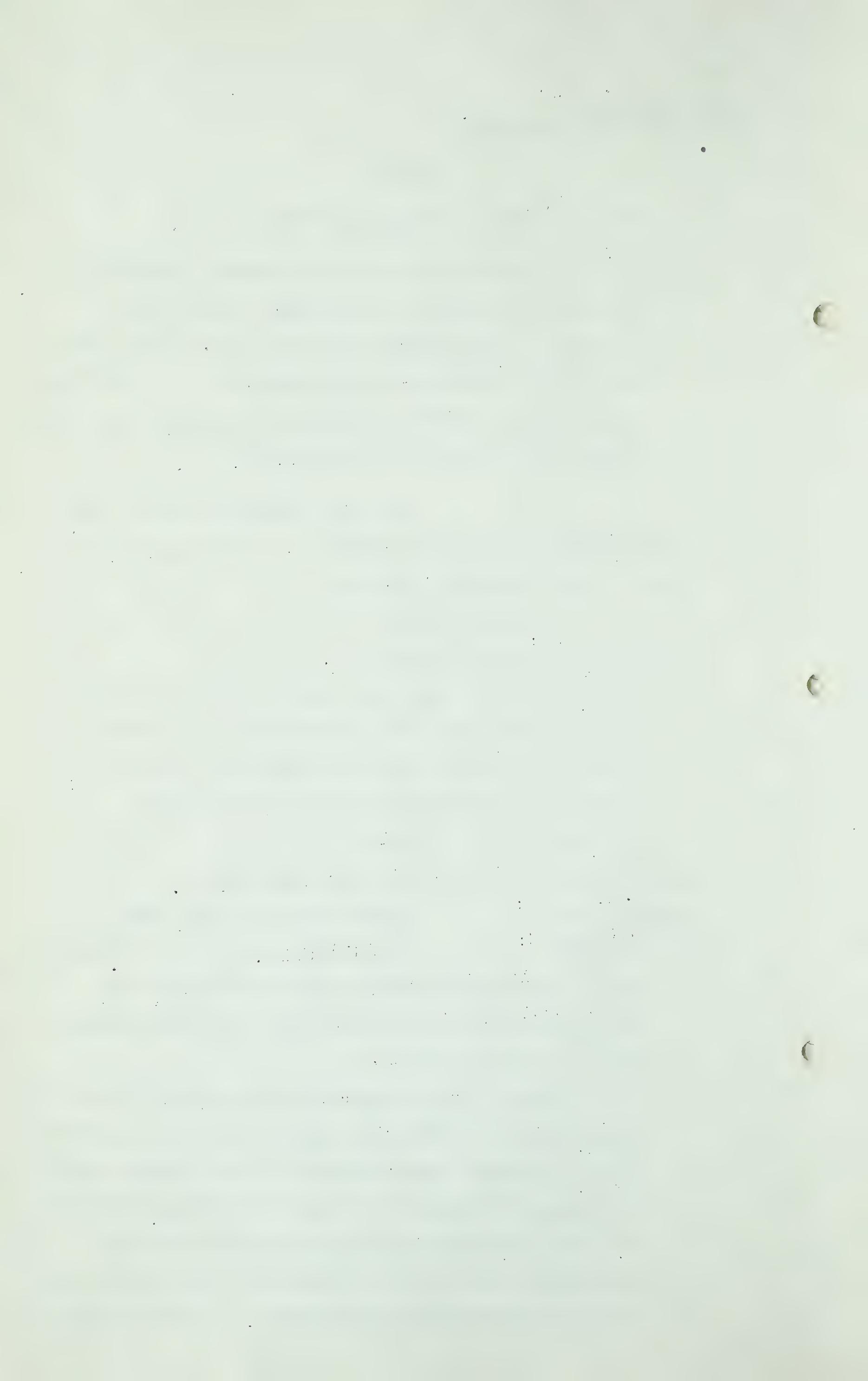
that is the plant that is in their Refinery.

MR. BLANCHARD: Where are you reading from?

MR. CHAMBERS: 11(b) (III), page 10, Mr. Blanchard.

"and to Imperial or Royalite and British American respectively of the portion of the auxiliary plants owned by each of them.

If such actual peacetime value to Imperial of the plant and/or to Imperial or Royalite of the respective auxiliary plants owned by each of them exceeds the net investment of Imperial or Royalite therein, the excess of such actual peacetime value over the said net investment shall be paid by Imperial for itself or for account of Royalite to His Majesty. If such actual



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"peacetime value to Imperial of the plant or to Imperial or Royalite of any of the said auxiliary plants owned by them is less than the net investment therein, the amount by which such actual peacetime value is less than such net investment shall be paid by His Majesty to Imperial or to Imperial for the account of Royalite as the case may be."

And then this is the clause:-

"Notwithstanding the foregoing provisions of this subsection (III) of this paragraph (b) of this Clause 11, there shall be excluded the amounts paid and/or payable by Royalite as being the cost of compressors and the accessory pipe-lines installed to boost gas from the south end of the Turner Valley to the No. 1 Absorption Plant of said Company, the amounts paid"

and so on. In other words, the items making up the \$311,000.00. Now, what I am getting at is this, in the estimate in Clause 4, Mr. Hamilton, you will remember there was the original estimate, Royalite was to spend \$470,000.00. That amount changed. That amount increased later on?

A Yes sir.

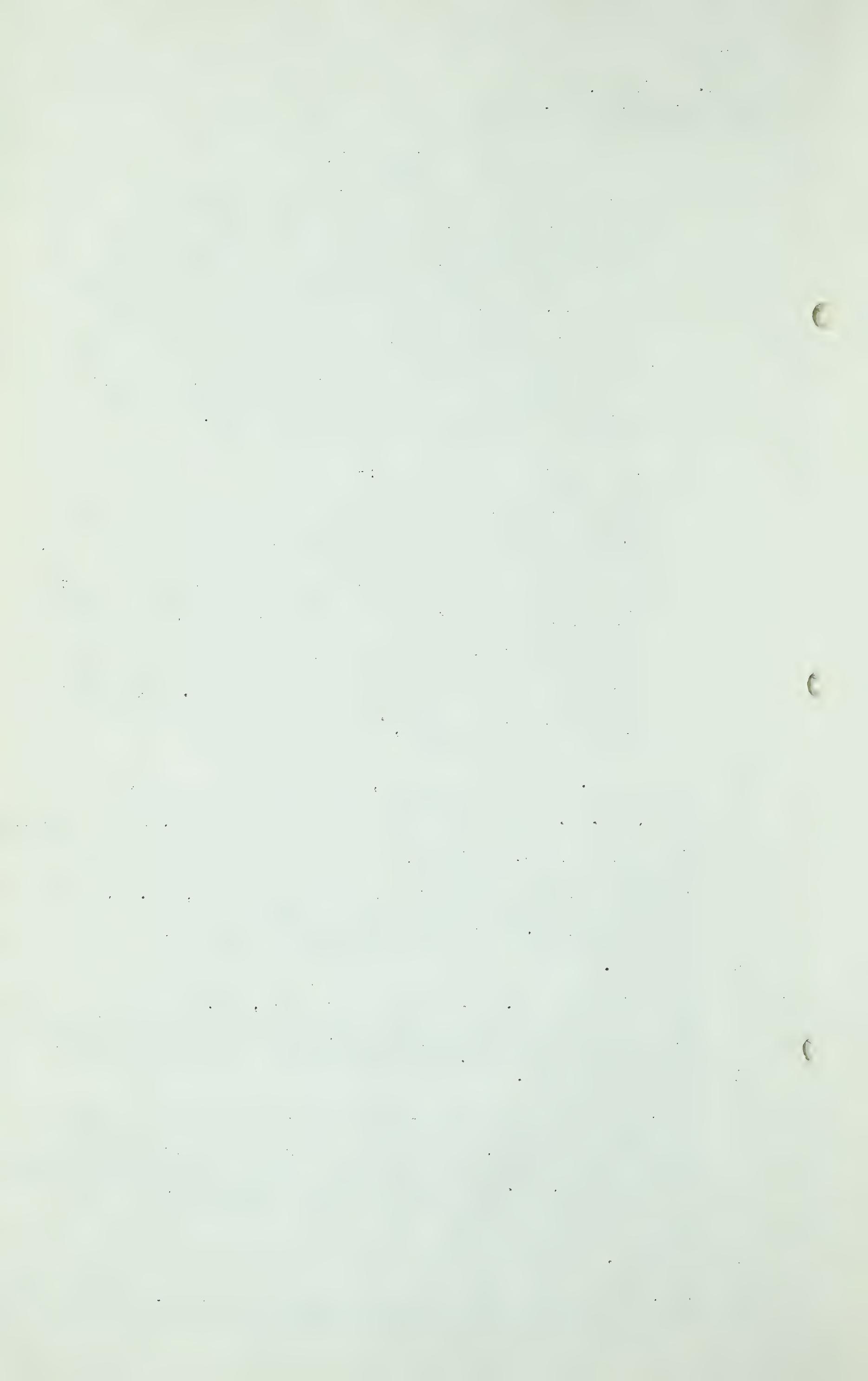
Q But of that \$470,000.00 there were \$311,000.00 that was not to come under the special provisions that I have read to you?

A That is correct.

Q And, as I understand it, Project "A", which we have talked about this morning, was really the project that was contemplated by that \$470,000.00 mentioned in this agreement, is that right?

A Yes sir.

Q And, you may not have these figures with you, Mr. Hamilton,



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but I think you told us this morning that the total actual cost of Project "A" was \$629,921.50?

A The figure I have is \$639,582.02.

Q Well, we won't quarrel about five or six thousand anyway, but I had \$629,000.00. Now, would your figures indicate this, that of that amount of \$629,000.00 or \$639,000.00, the number 3 Compressor Station, the actual amount paid out in dollars and cents represent the cost was \$185,709.00?

A Approximately.

Q And you call that (a). And then, as I understand it, the actual money paid out by Royalite in installing the auxiliary alkylate plants 1 and 2 in the Absorption Plants 1 and 2, and later moving of the Number 2 Absorption Alkylate Plant to No. 1 plant, was about \$249,000.00.

A I have \$238,000.00, but that is close.

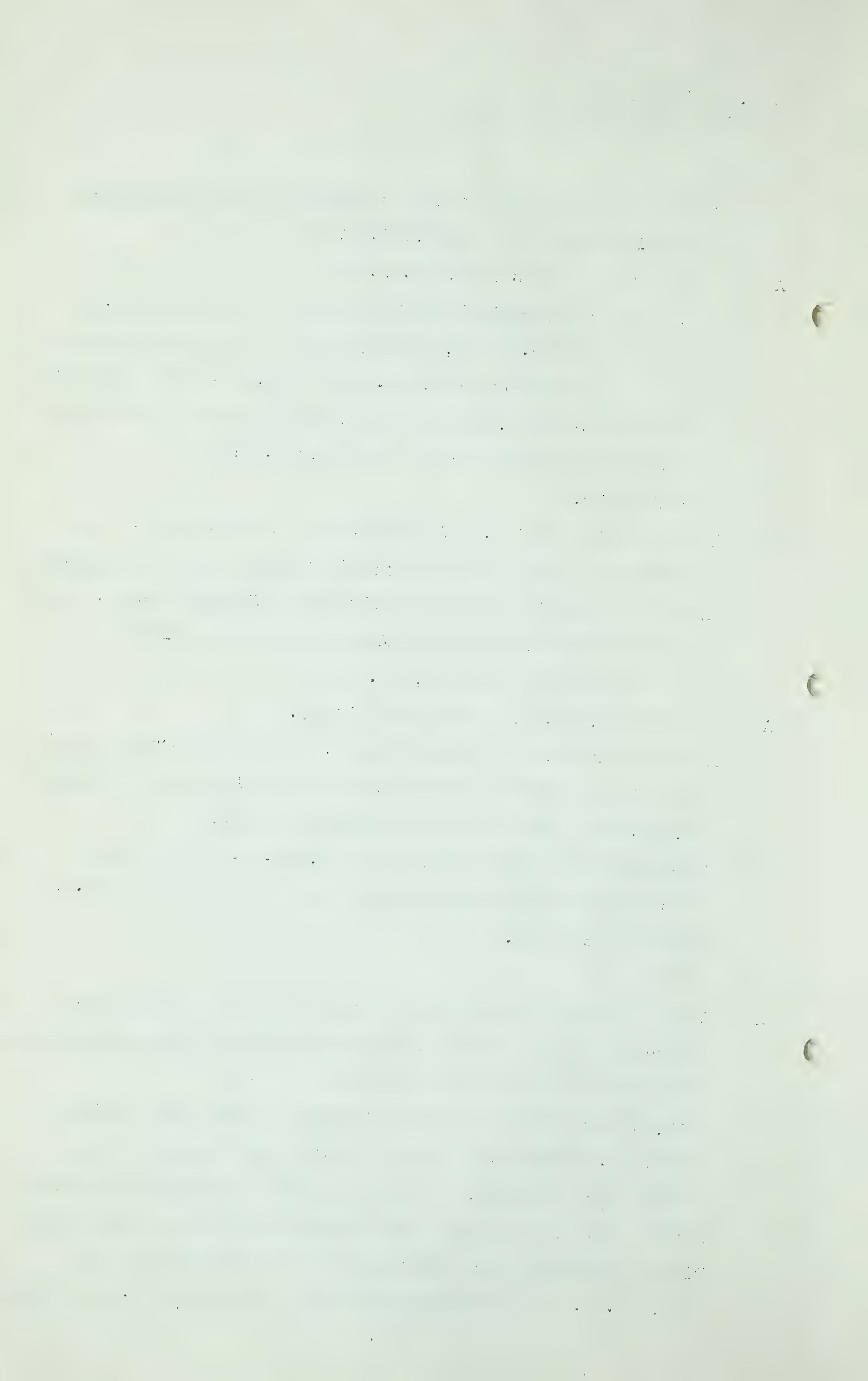
Q And in addition, as I understand it, there was a transportation and capital expense allocated to that same Project of roughly \$11,000.00. Have you any particulars of that?

A Transportation costs amounted to \$23,000.00. The eleven thousand was deemed applicable to the work done at the No. 3 Compressor Station.

Q Yes?

A And the rest of it was divided up amongst the other items, and some part of it was expense and some of it was capitalized and I want to speak on that this .

Q Well, that may account for that figure we have been talking about, Mr. Hamilton. I want to get those figures by and large. There was \$185,000.00 roughly for the compressor plant station No. 3, and then these installations in the Absorption Plants themselves were something in the neighbourhood of . \$250,000.00. My information is that it was \$260,000.00, if you



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add up a certain part of the transportation and capital expenses to that. And it is that item of \$249,000.00 or \$250,000.00 plus the \$11,000.00 in respect of these installations in the Absorption plants that is within the scope of Exhibit 147, and not within the scope of the \$311,000.00, is that right?

A I am not sure that I appreciate your question. Maybe this answers it, does it, that I figure the whole of the \$639,000.00 that was expended on the Project "A" was within the confines of the whole contract, but only that part that it had with regard to the gasoline clause was included in that \$295,000.00.

Q In other words, this money that was spent in installing the auxiliary alkylate plants and the absorption plants and so on is not within the scope of the \$311,000.00?

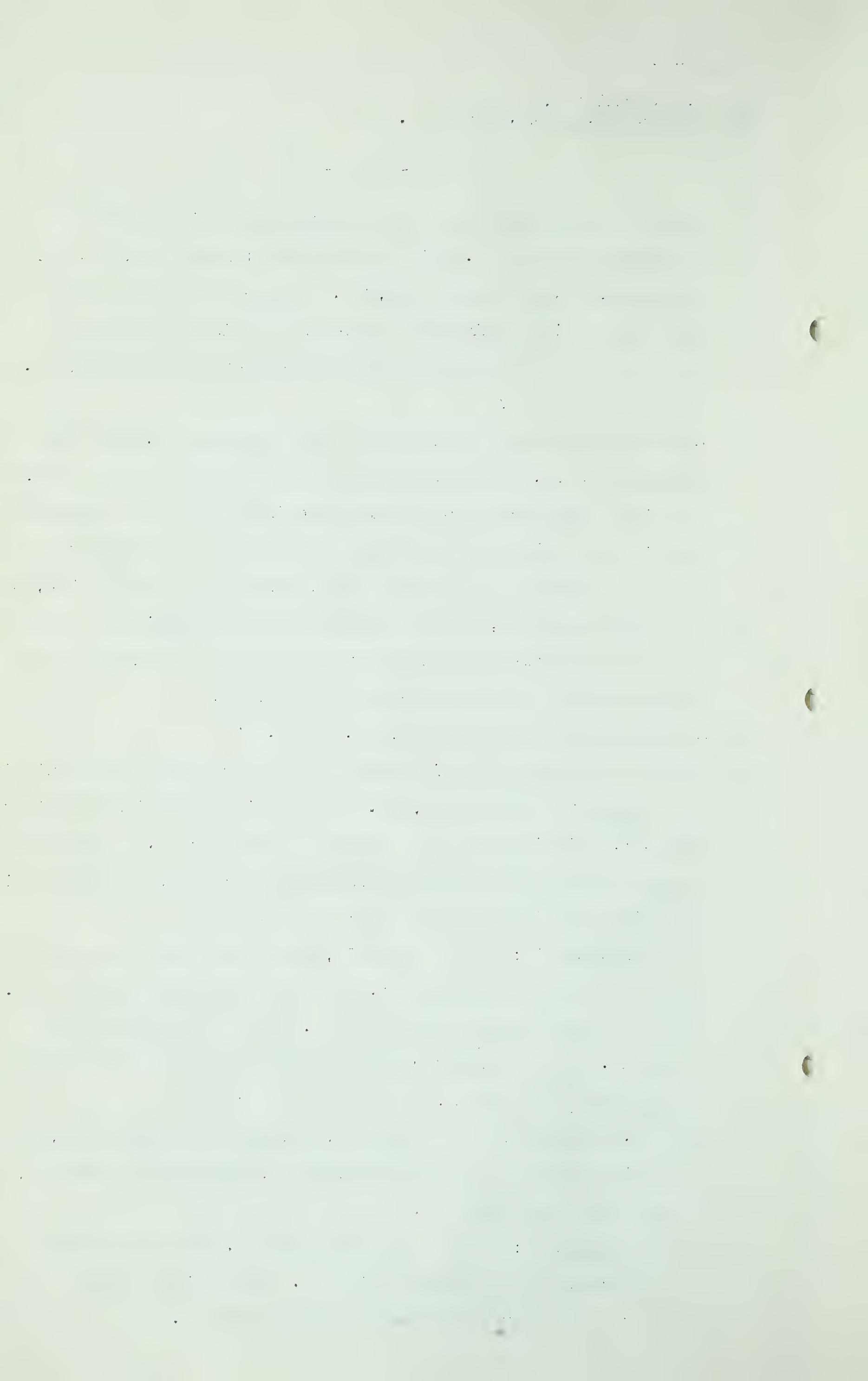
A I forgot what the \$311,000.00 was.

Q That is the part I just read to you here. It was not within the scope of the \$311,000.00 absorption plant installations. Sir, this is bound to be of interest later on. It might not appear that we are accomplishing so much now, but I think it will be talked about again later on.

THE CHAIRMAN: Well, I frankly say that I do not know what it is all about. I have never seen the contract. I do not know anything about it. You are talking over my head. I am quite sure there are others here that are in the same position I am.

MR. CHAMBERS: Well, I can pursue that now or, if you think it would be more advantageous, and more time saved, I could pursue it later.

THE CHAIRMAN: I do not know. I have never seen the contract you are speaking of. I do know that the Dominion Government paid for certain things.



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MR. CHAMBERS: Yes.

THE CHAIRMAN: I know that. The return fuel line, for instance.

MR. CHAMBERS: Well, as it turned out, no. That is still another story.

MR. STEER: That is part of the \$311,000.00.

MR. CHAMBERS: No.

MR. STEER: The return fuel line?

MR. BLANCHARD: Yes, it is.

MR. CHAMBERS: Yes, but as it turned out, it is a different story.

MR. FENERTY: It is another story?

THE CHAIRMAN: I am listening with much interest.

MR. CHAMBERS: Well, if I may go back again and ask with regard to this contract.

THE CHAIRMAN: It is difficult for me to follow what you are asking. Are you in the same position, Mr. Fenerty?

MR. FENERTY: I am not having any difficulty at all.

THE CHAIRMAN: You are not?

MR. FENERTY: I just have not attempted to follow it.

THE CHAIRMAN: If you do not understand anything, you are not having any difficulty.

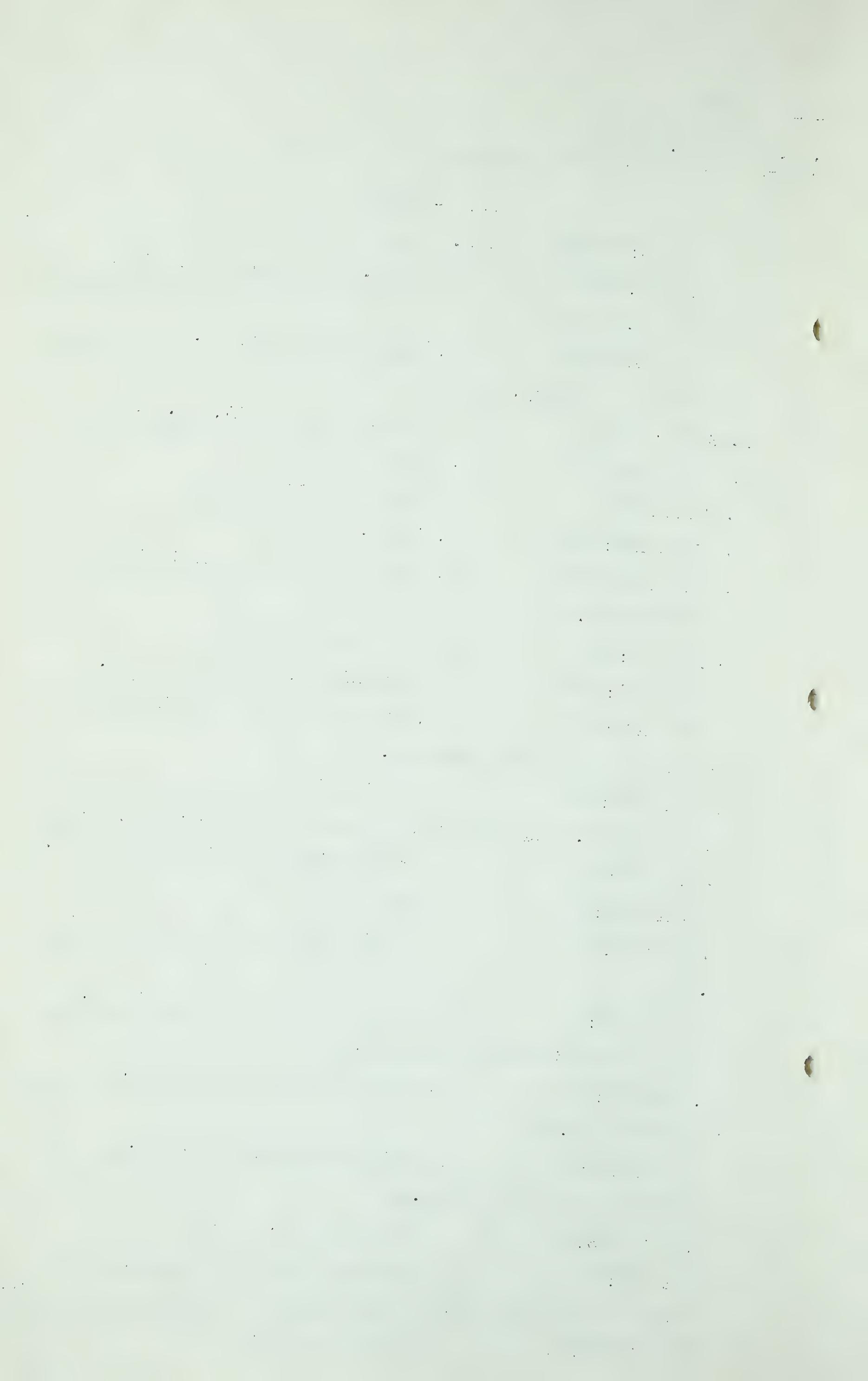
MR. FENERTY: Because I am not following it, that is what I mean.

THE CHAIRMAN: This is completely new to me. I have not heard of it before.

MR. CHAMBERS: It is new to me, too.

MR. STEER: Would not this be a reasonable suggestion, that we have an opportunity of studying this contract?

THE CHAIRMAN: I would think so.



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MR. STEER: And when the Royalite officials are in the box the week of the 18th and the following week, they might then go ahead with it and tell us about it.

JR. CHAMBERS: That is quite all right with me, if we have Mr. Hamilton back again too, because having raised the point with regard to it, there might be some further questioning.

MR. BLANCHARD: My idea was to put it in now so that it could be made the basis of discussion.

THE CHAIRMAN: Yes.

Q MR. CHAMBERS: Mr. Hamilton, I think my learned friend, Mr. Blanchard, put to you a question something like this, and I am not sure whether you agreed with him or whether you qualified it, but I got the implication of this question to be this, that while the items on Exhibit 147 were not included in your historical cost figures, there had been included or allowed by you very much larger capital costs about which there was some doubt?

A Yes sir.

Q Now, is that so?

A That is correct.

Q That is correct?

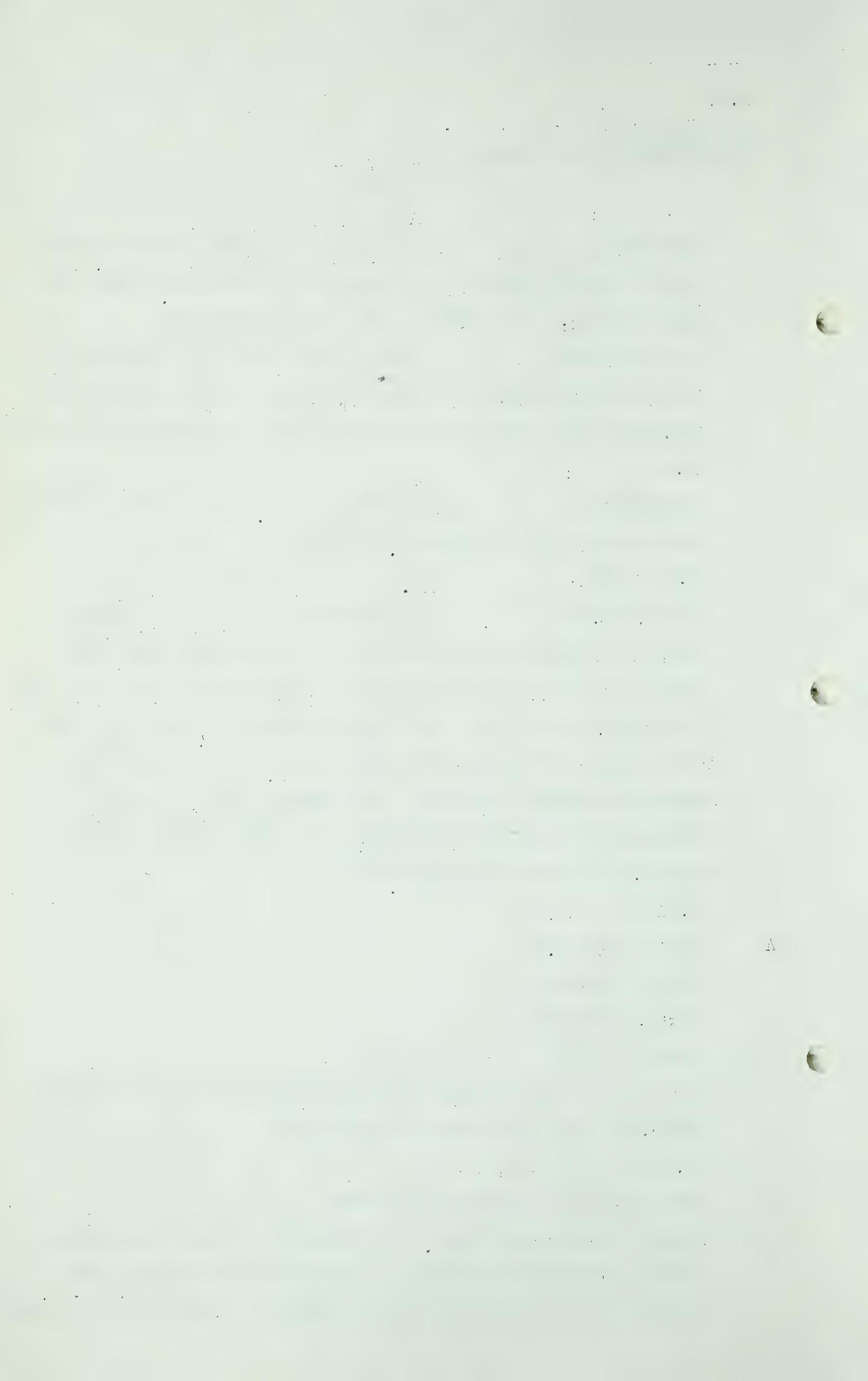
A Yes sir.

Q Can you give us anything now about those other larger capital costs that you have really doubt about?

A Yes sir.

Q Well, would you proceed to do that?

A I would have to do it more or less on the basis of principle rather than specific detail. I mentioned this morning one example where we had an item of historical costs of \$10,000.00,



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which had originally cost about \$3300.00, and then moved and renovated at a cost of \$6500.00.

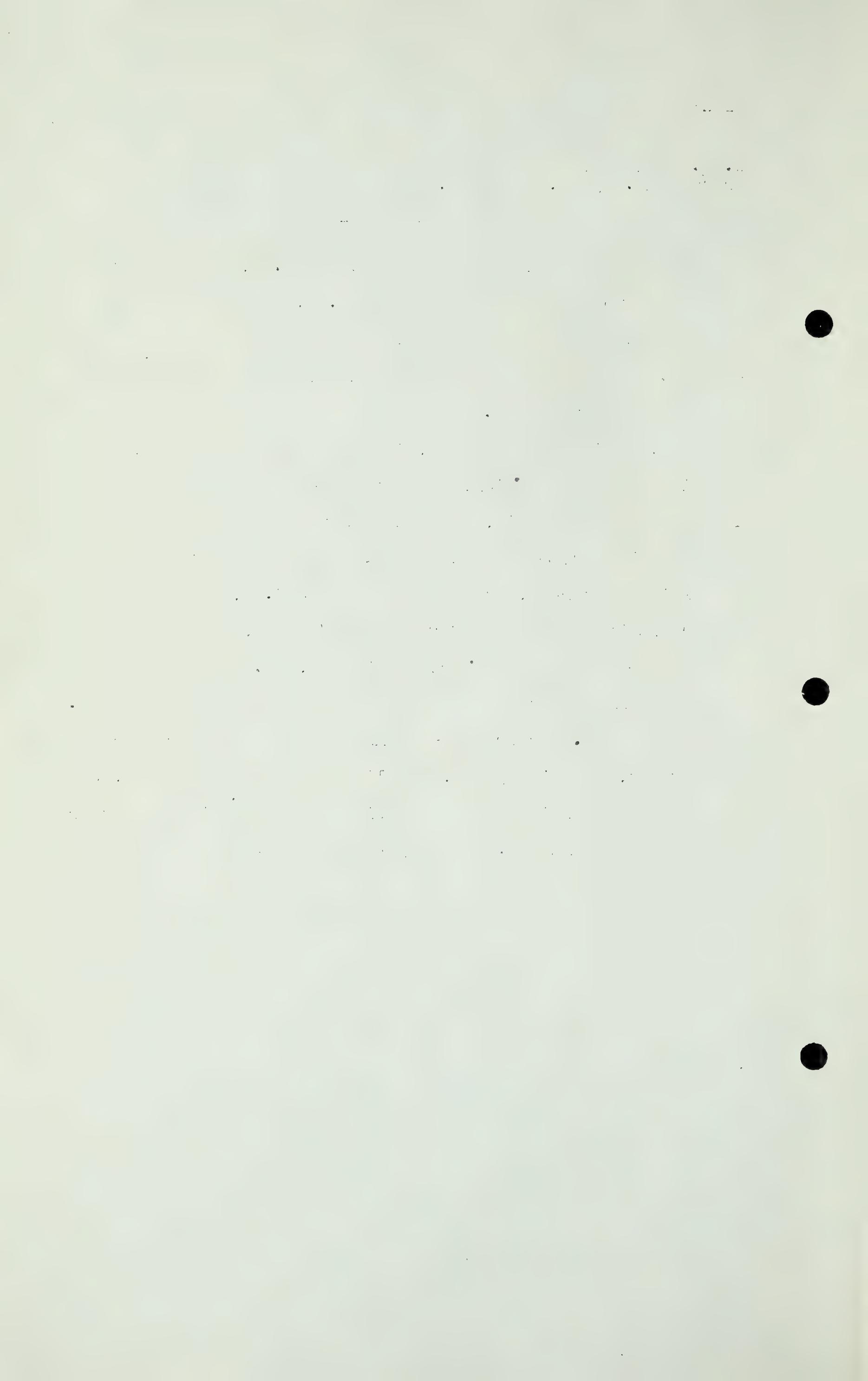
Q It was enlarged when moved?

A No, there was a slight change made, but the actual size was about the same.

Q Now, my instructions are, I am not giving evidence, but I draw it to your attention, that it was enlarged?

A As I understand it, the peak was put on the building and that the floor space was enlarged. The other matter which is fairly concrete, is an amount of \$8307.02, by which there was capitalized as part of Project "A" costs, transportation and camp expense, being part of the \$23,000.00 transportation and camp expense of which you were speaking a moment ago. This \$8300.00 represents items which, in the normal course of events, in prior years, Royalite would have expensed, and in respect to which we made specific allowance in our historical costs compilation. You may recall that.

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We find, however, that with regard to Project A by reason of the relationship of their cost accounting this particular contract which we have been considering the company did, in fact, capitalize the expense for Project A which under other circumstances or in its other experience it had not capitalized. Consequently, we felt it is a substantial duplication in that particular item. Now then, if you take Project A, expenditures relating to the Madison assets in total and compare them with Mr. Hill's replacement costs, we find quite a substantial variance.

Q Just in that connection, Mr. Hamilton, are you suggesting that the actual or historical cost in respect of the peak war years should be discounted somewhat for the purpose of your rate base?

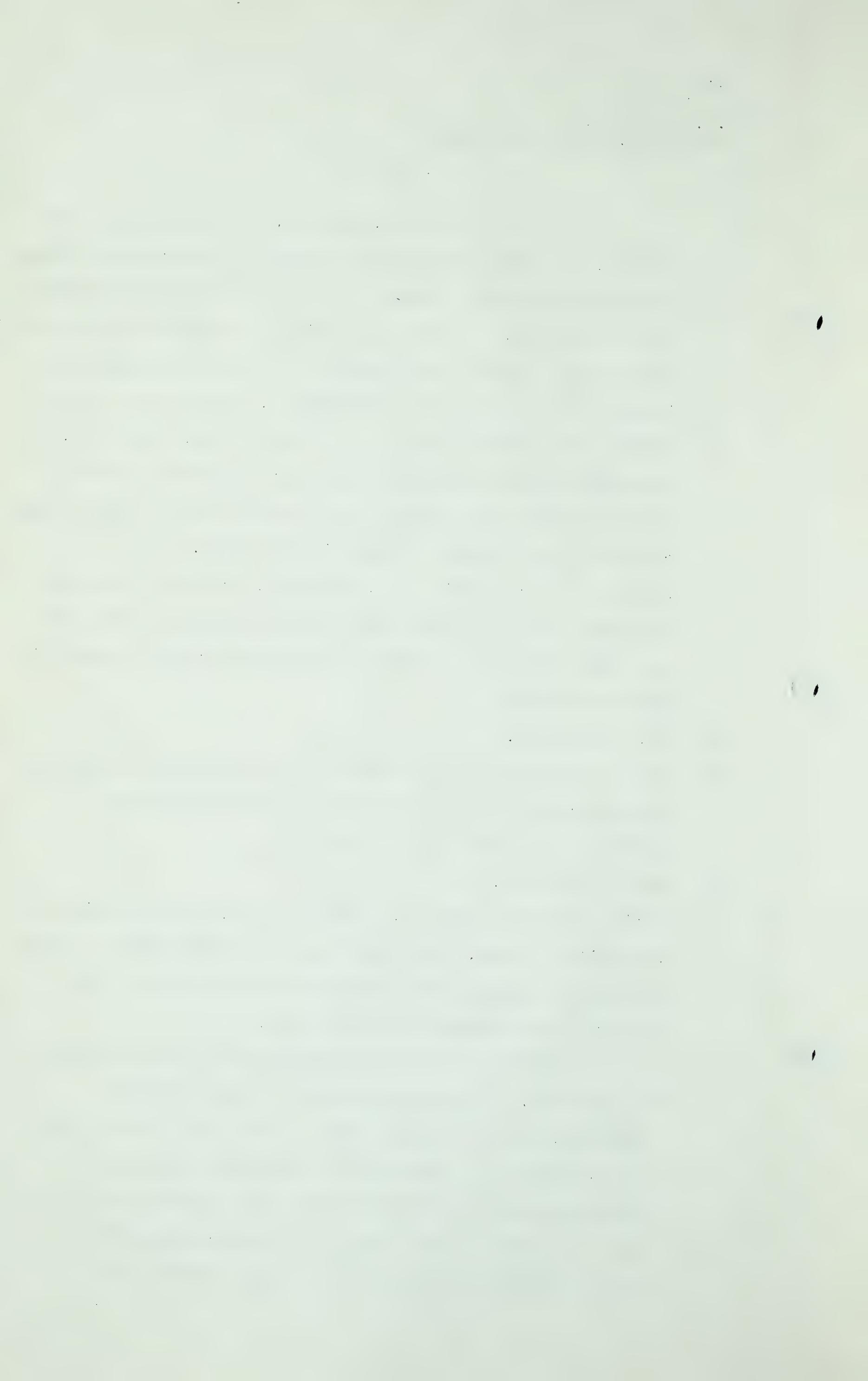
A No, I said not.

Q You do recall Mr. Hill stated in his reproduction cost new he made certain allowances for the war years and the efficiency of labor and so on?

A That is correct.

Q What I cannot understand, frankly, is why because this work was built in 1943, this Project A as I understand it, that you think that the amount actually spent would not be properly included as historical cost?

A I think that goes right to the very root of the matter, Mr. Chambers. I have endeavoured to point to this principle, which I conceive to be sound, and that is that money spent is not necessarily a historical cost of something which is used and useful and that when the money has been spent you have first of all to consider the purpose and the manner in which it was expended and



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determine whether it results in the historical cost of something used and useful.

Q What is there now is being used and useful, is it not?

A Yes, sir.

Q And there was money spent on it?

A Yes.

Q Prior to regulation?

A Yes, sir.

Q And you say that in arriving at the historical cost now for the first time that some study should be given by the Board as to whether the money was properly or well spent, is that what you say?

A Not necessarily, but to have them determine the purpose for which it was spent and to see whether it did or did not result in something which was used and useful or whether the purpose for spending the money was something entirely different.

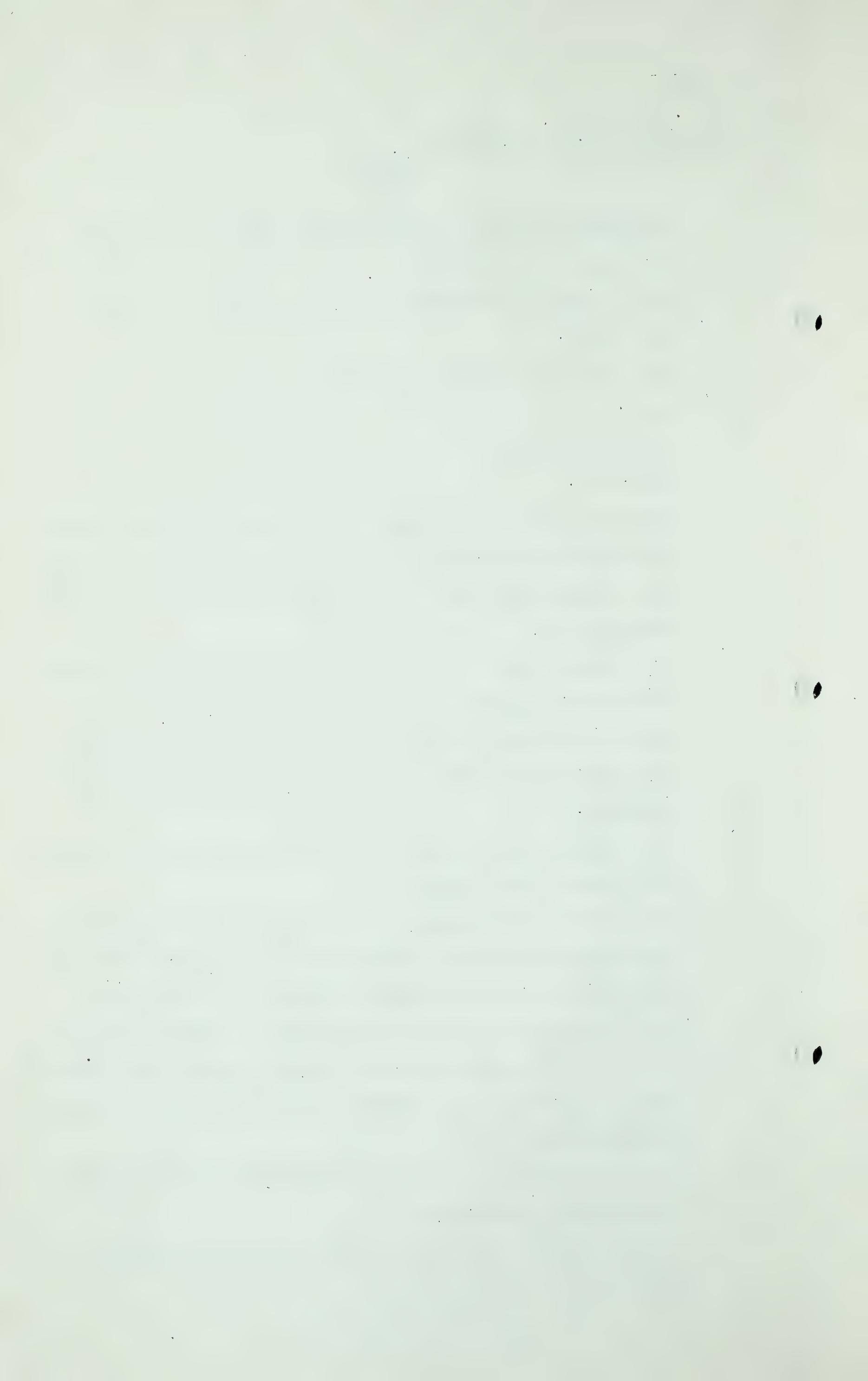
Q Just exactly what have you in mind when you question whether the money was well spent?

A I have in mind two things. One of them is the necessity of the Royalite Company implementing its agreement through the Imperial Oil to do certain things by its subsidiary company which involves the expenditure of certain money.

Q Is it not a fact the subsidiary company owned other property down in the Valley and Imperial do not own a thing or any property down there?

A That is correct. But Imperial undertook to see that its subsidiary did something.

Q The Government of the country wanted a certain product made available?



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A Yes, correct.

Q That product could not be made available unless certain changes were made in the property of Royalite, is that not so?

A That is correct.

Q And because Imperial happens to be the majority shareholder of Royalite, you, as I understand it, intimate that that raised some questions in your mind at once as to whether that was an improvident expenditure down there, is that a fact?

A No, sir, it raised in my mind the question of whether or not that expenditure would have been made had it not been a part of a larger scheme.

Q Well is this not so, that by reason of those expenditures having been made that the Madison system today is a more consolidated system and more efficient to operate than it was before?

A I know, but on the basis of our historical cost, assuming it to be more efficient, it certainly is one which has cost \$287,000.00 more.

Q And are you suggesting that if that money had not been spent, that the capital additions that would have had to be made by Madison or it would be good business for it to make would have been the same as estimated?

A They might have been. I do not know.

Q You do not know. You had no way of gauging the effect on the operating expense either?

A That is correct. Probably I should add this, that these thoughts or impressions that occurred to me in the first instance were the basis of our discussion and what gave rise to our discussion a year ago and when the company

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officials at that time concurred that there was a legitimate offset there that in a sense confirmed my first impression in the matter and I did not pursue it.

Q Is this not so, that in respect of the property comprising Project A, which was actually transferred to Madison, all the moneys expended by Royalite were not included in the historical cost as you now have it set up for Madison?

A Could I have that again, sir?

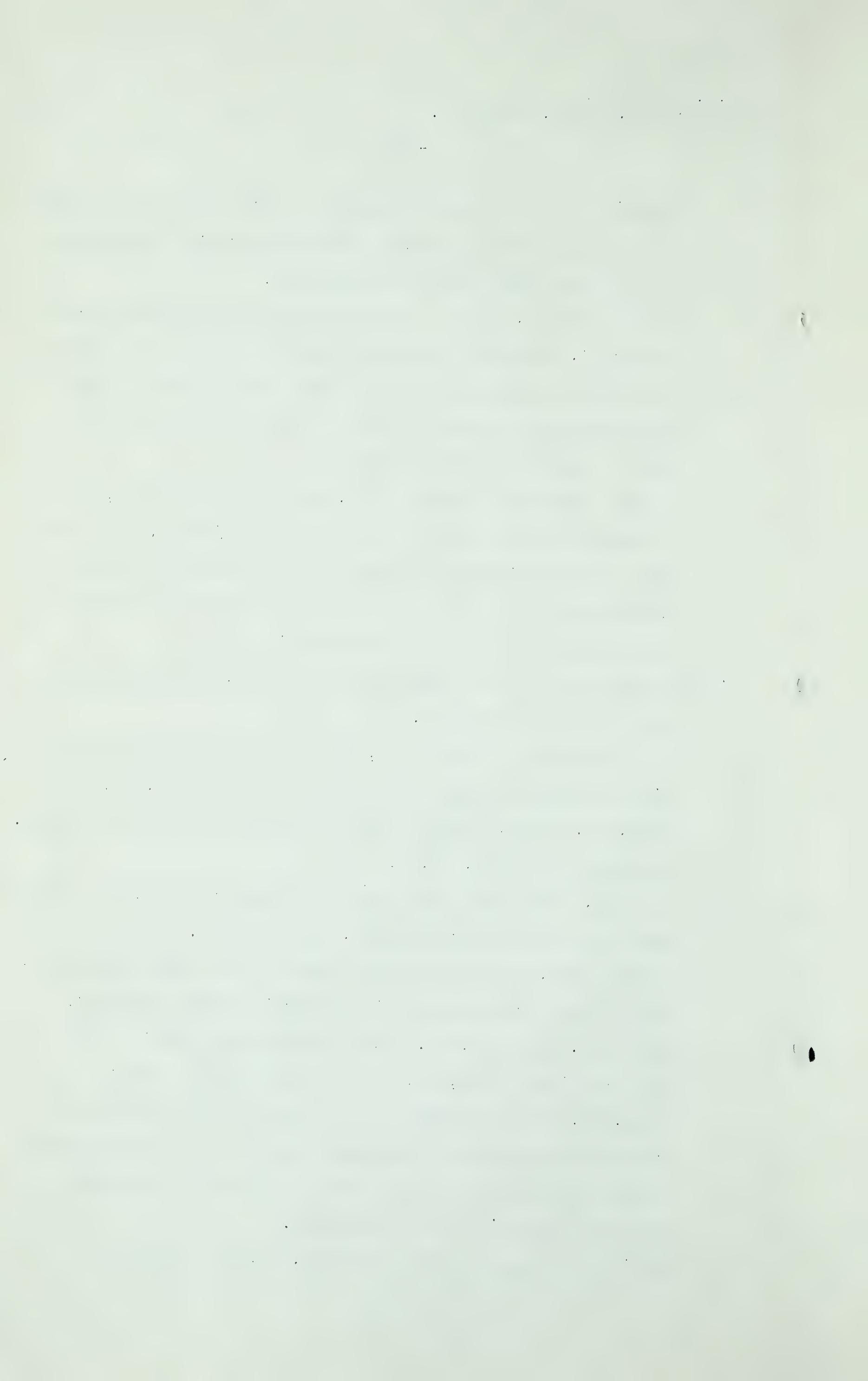
(BY THE REPORTER READING); "Q. And is this not so, that in respect of the property comprising Project A, which was actually transferred to Madison, all the moneys expended by Royalite were not included in the historical cost as you now have it set up for Madison?"

A Not altogether, but a substantial part is. I can give you the figures if you like.

Q I am suggesting to you this, that in respect of Compressor Station Number 3, that over and above this \$185,709.00 or \$180,000.00 odd, Royalite absorbed certain items of expense, something over \$11,000.00.

A Oh well, I think we have dealt with that already, Mr. Chambers. Maybe this will be remembered. The \$11,000.00 you speak of is the cost, the proportionate cost of the total transportation of the camp expense in connection with Project A. Now then, that \$11,000.00 was expensed by Royalite and left remaining \$174,000.00 to be capitalized. The \$174,000.00 was admitted by us in toto in the historical cost and to the total historical cost we added an allowance of 9%, which is supposed to have included the equipment and all expenses of this character.

Q My instructions are that this \$11,000.00 I am talking



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about is the expense in connection with the moving of these houses.

A That is correct. I see now there are two figures very similar in character.

Q Yes.

A You are quite right. The \$11,460.00 you speak of moving the Chief Operator's house, office building, dismantling the garage building and moving it from camp 2 to camp number 1.

Q These houses are on the property of Madison?

A That is correct.

Q And you have not included this \$11,460.00 in your historical costs? I am not suggesting that you should put it in.

A It is not in.

Q I am bringing out the fact that is one portion of the expense that Royalite has absorbed.

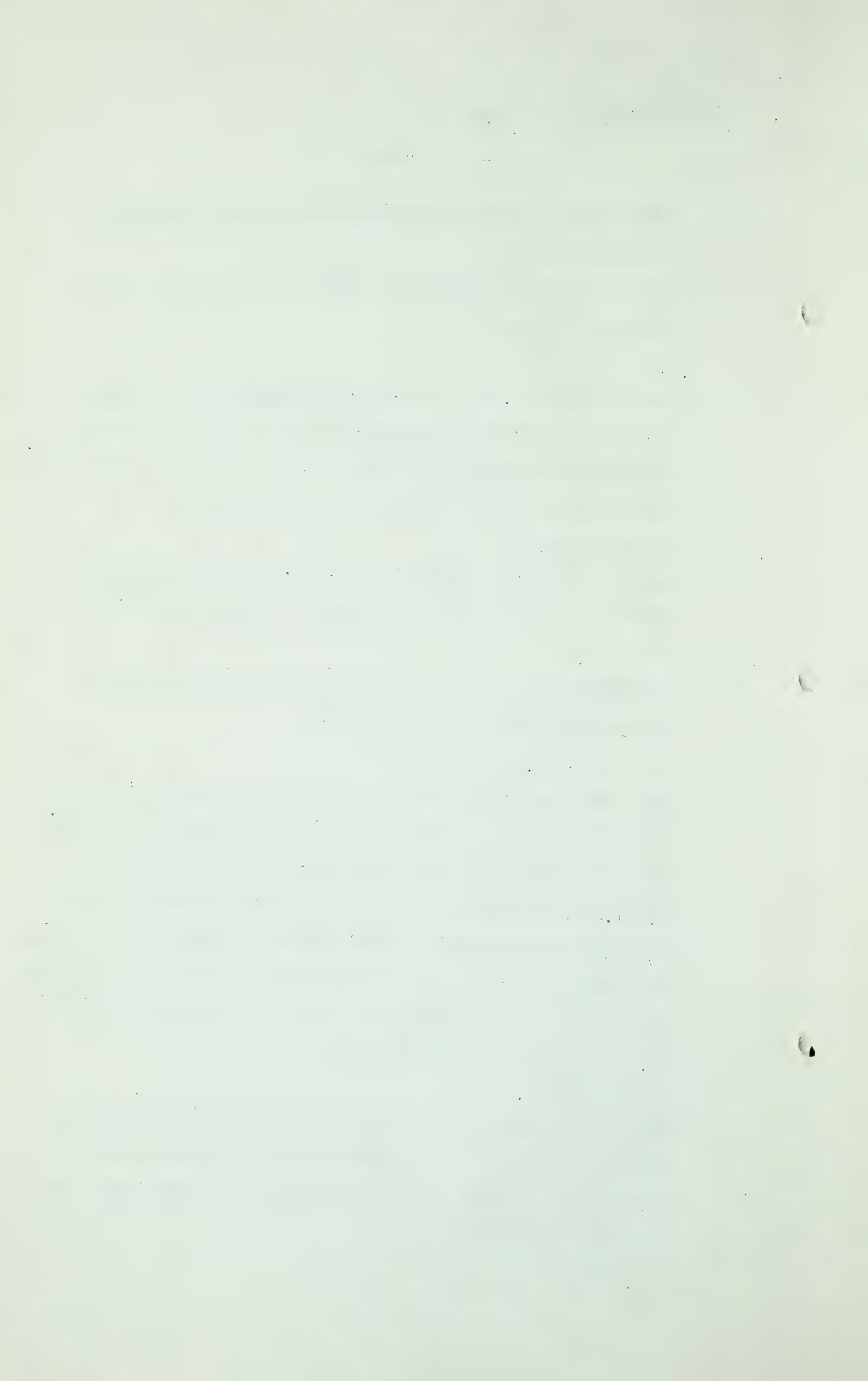
A That is correct.

Q Then there was this question of the North extension, where the amount there was small and I will not bother with that. But this question of the South line, I think there was \$45,051.34 spent altogether and of that, Royalite absorbed \$18,384.00 of expense in connection with these South lines, and that they were turned over to Madison and are included in the historical costs of Madison on the basis of \$26,000.00 odd. That is right is it not?

A That is correct.

Q And then the North return fuel line, of course Royalite has retained that and has not turned it into Madison except as I understand a small dehydrator, \$4000.00. That is right is it not?

A Yes, sir.



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Q And is this not so, Mr. Hamilton, that if the Number 3 Compressor Station had not been built previously by Royalite, would it not have had to be built after the Madison set-up in order to take care of this question of sharing the market and so on?

THE CHAIRMAN: Is not that a question for an engineer?

MR. CHAMBERS: Well I am just asking him.

A I would assume so from what I have heard.

THE CHAIRMAN: An assumption which may be quite unwarranted, I suppose.

A I just assume so from what I am told.

Q MR. CHAMBERS: Do you know specifically, I do not mean whether you got it from Ottawa, but do you know specifically what taxes have been removed in respect of the property included in Mr. Hill's valuation that he included?

A I am not a tariff expert.

Q But Mr. Fenerty put certain questions to you on the general proposition and I just want to know if you have any specific knowledge of that at all.

A Any information I had is not contrary to what he suggested to me and I expressed my understanding in those terms.

Q What information have you got?

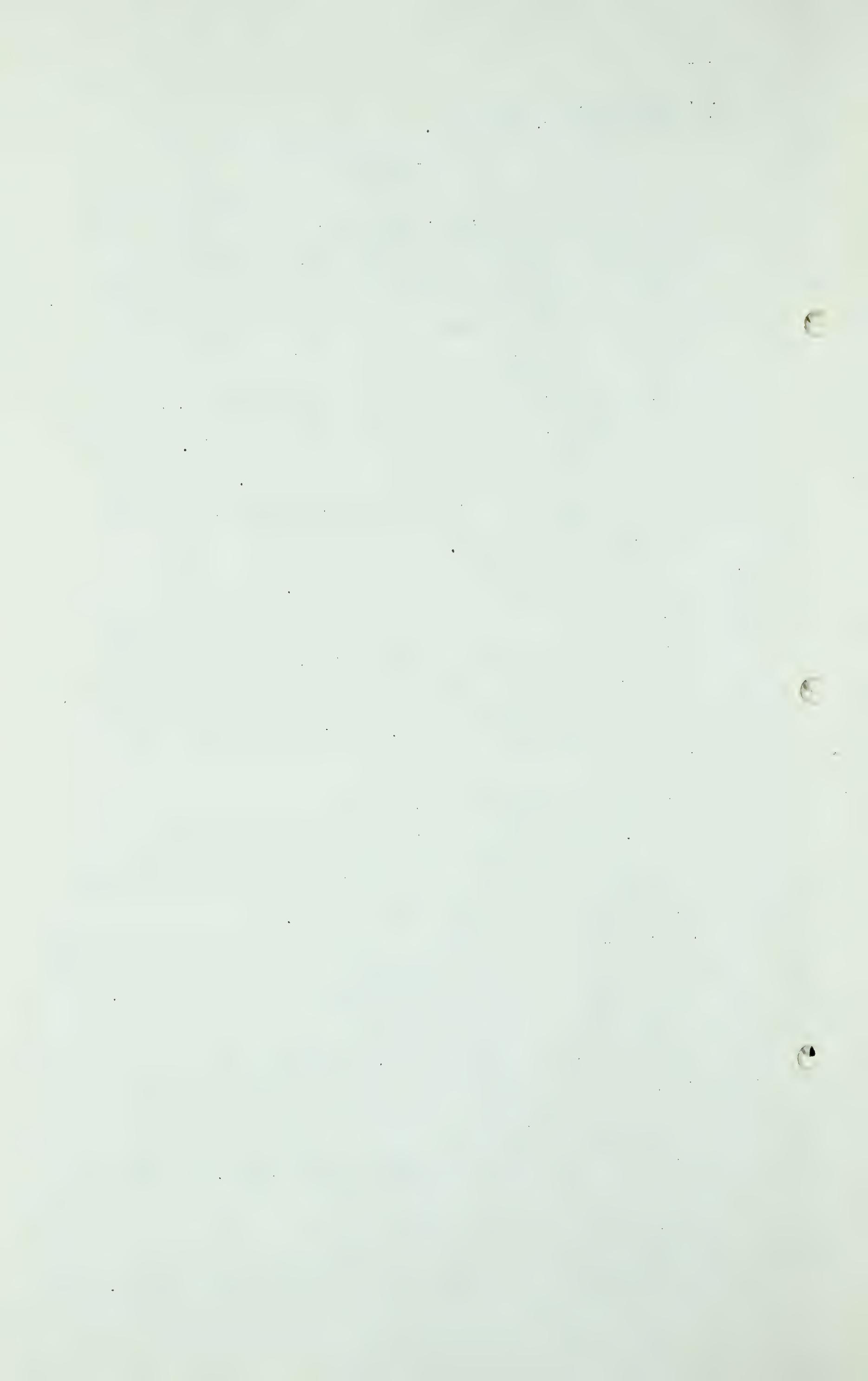
A Just common, what shall I say, street talk.

Q Did the street talk refer to any specific property or any specific tax?

A I refer to the Ten per cent War Tax Act, yes. That is a common instance.

Q And it is off everything?

A Off items of heavy equipment of a production character.



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Q And that is a tax that was included in Hill's valuation?

A I understood so. I am not certain but I understood so.

Q On these items included in Group B, I think when we discussed this fact in October, you raised the point that some of these items/are referred to, particularly the separator and other items, two tanks corrugated iron, one tank, one pump and one tank and things of that nature might very well have been acquired by Royalite as part of a well, lease and equipment of a gas cap well it had purchased?

A Yes, sir.

Q And that possibly the company had charged the price the well or lease and that it just took the separator or some of the equipment in at a dollar, a nominal figure.

A Or vice versa.

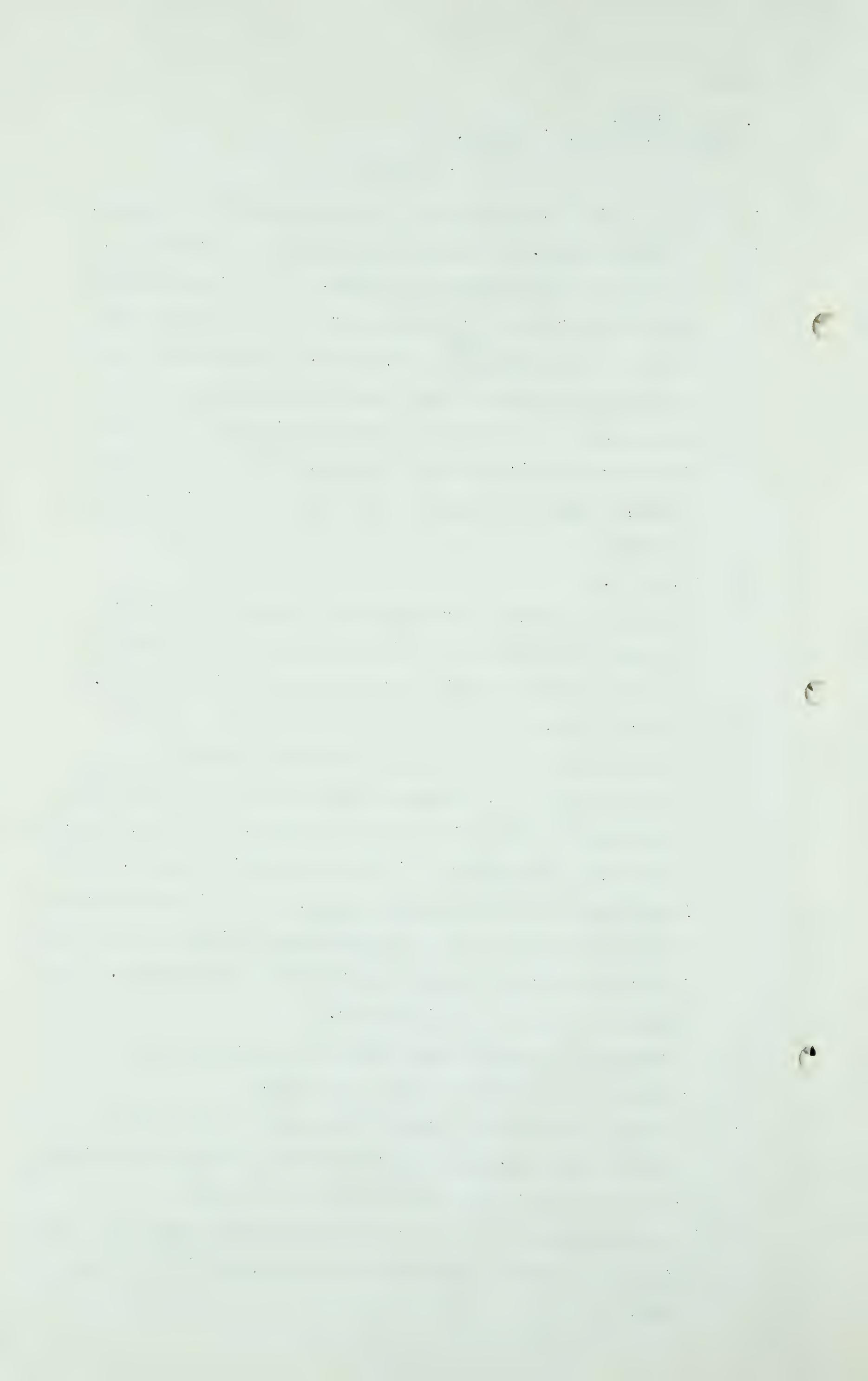
Q You have made some inquiries into that lately?

A Well I spoke to Mr. Stevens-Guille about it the other day and from the information he furnished me, there does not seem to be any great number of items included in Group B, that is representing substantial amounts, which might have come to the company or come to the Madison section of the plant in that class and I have not bothered to add them up. The amounts involved are quite minor.

Q I thought you had probably done some checking with the accounting department since last night.

A I could not do that because the whole of the items in Group B are such that they cannot show me where the things came from, so far as the books are concerned.

Q I am talking to you particularly about the equipment that might have come in as part of the purchase of this gas well.



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A Well it seems to me any investigation of that character would be quite fruitless because I do not know where these things were charged in the first instance. They just came out of the blue. Whether they came from the acquisition of a gas cap well property or not, I do not know. They could have. The point that was just occurring to me is by reason of the physical character of the assets, and Mr. Stevens-Guille's information too is that the amount involved could not be very substantial.

Q I understood and I may be quite wrong, but if there is any equipment that came from a well - I do not know whether any of this did or not - but I thought that you had checked it very recently, or had been informed recently about it - that in buying that equipment from the well just the opposite procedure was followed, that is that they took the inventory and valued it and took the items in at that valuation. Have you checked that at all?

A I was told in the room this morning when they took over assets of that kind, they appraised it on that basis I do not know.

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CROSS-EXAMINED BY MR. FENERTY:

Q Just a couple of points, Mr. Hamilton, which I omitted to ask before and which have come up since. I was interested in a remark you made to Mr. Blanchard that possibly one reason for the high rate of return might be the amount of experimentation which was necessary, and I think you agreed with him on that?

A Yes.

Q And I take it that would be based on the risk involved?

A Yes.

Q All right. Now then, let us assume, and this is purely hypothetical, that a Company had acquired inefficient equipment you see?

A Yes.

Q And found it necessary to bring it up to a state of efficiency, that would of course involve perhaps as much or more experimentation, would it not?

A It might do.

Q It might?

A Yes.

Q And an equal additional risk?

A It might do.

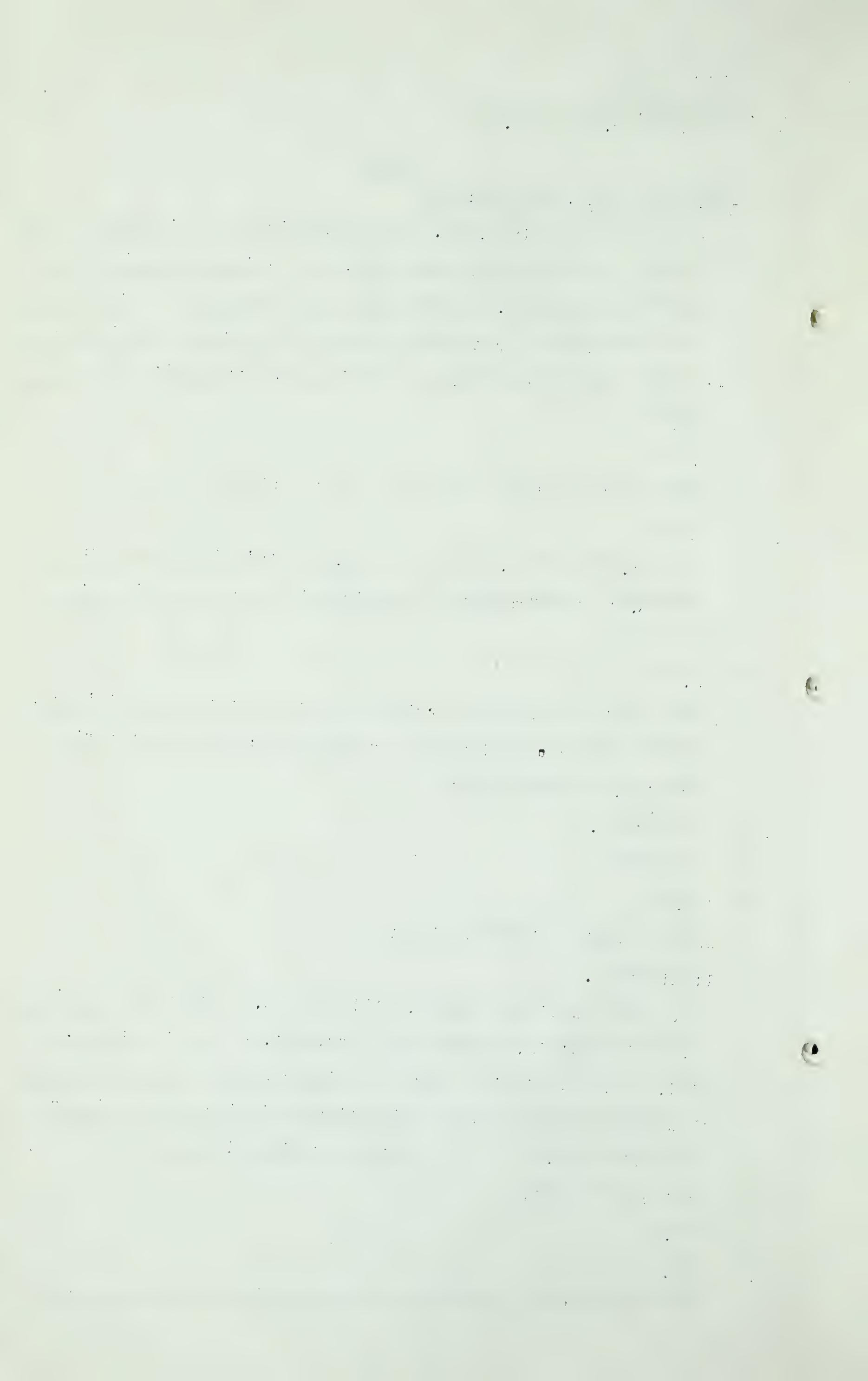
Q Yes. Now you will remember, will you not, that when valuations were being put in, there was an argument, - was it with Mr. Hill, yes, Mr. Hill's report on going concern of two hundred thousand dollars and the explanation of it included engineering efficiency, and those various items?

A It included that.

Q Yes.

A Yes.

Q Now I suggest to you that on those theories we are going to



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have a bonus by way of, - in that case, some two hundred thousand dollars because of engineering efficiency amongst other things and we are going to have a bonus by way of increased interest where circumstances are such that experimentation is necessary, and consequently risk is present ?

A Yes.

Q So that it follows from that that you are going to have a bonus whether the engineering staff of a Company has done well or ill ?

A I would say that would follow if you allowed for going value and also the items in respect ^{of} which you are suggesting going value.

Q And it follows from that whether they have done well or ill that they are going to get bonuses ?

A Pardon me, I am not suggesting a higher rate of interest.

Q If those theories are given effect to ?

A Yes.

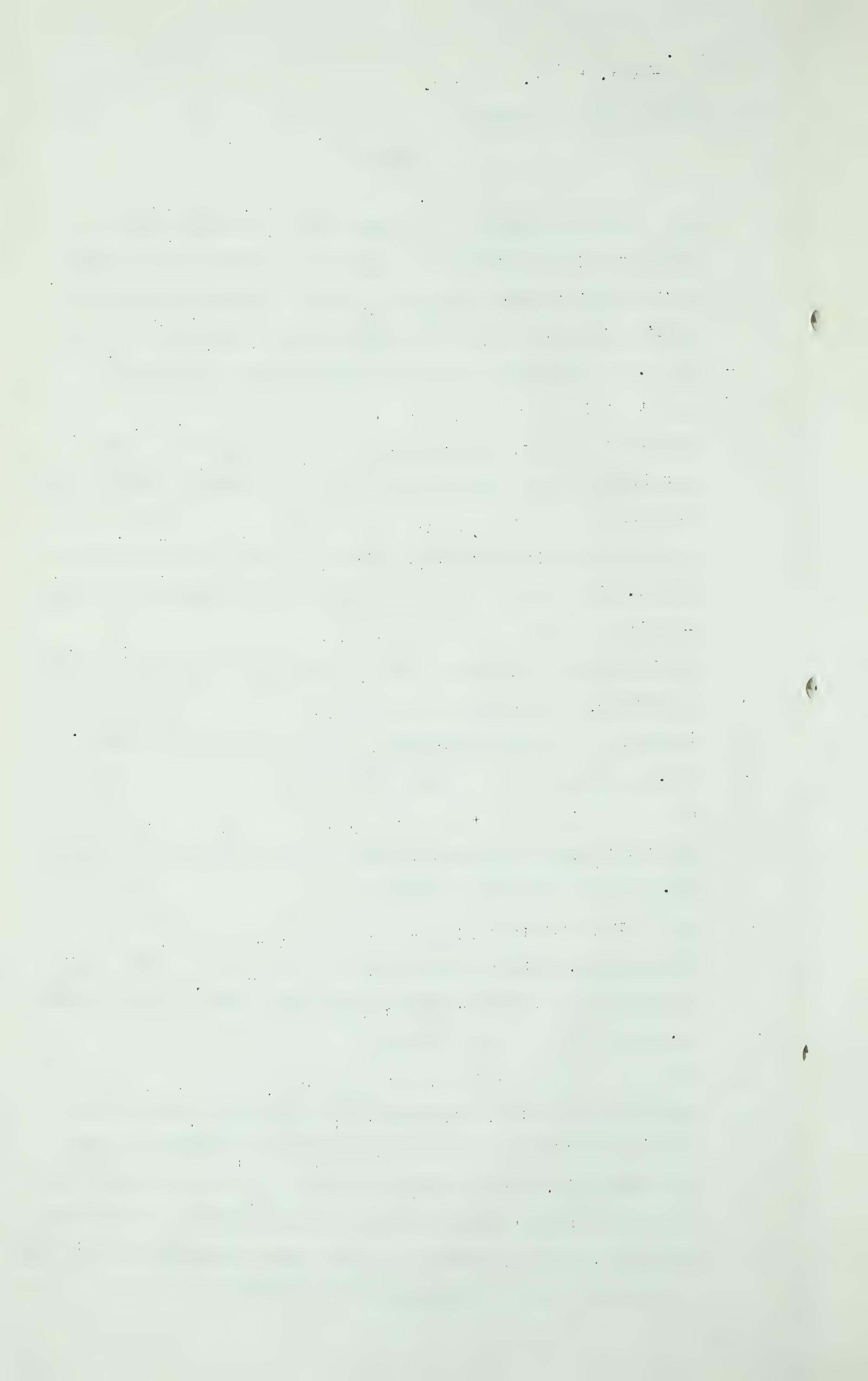
Q They are going to get the higher rate of interest and a two hundred thousand dollar bonus ?

A Yes.

Q And if they get that higher rate of interest and that bonus it of course, - in the normal course of events, some of that would come out of the consumer ?

A Yes.

Q Now with regard to this question of risk, and this is the other point I wanted, with regard to this question of risk and this question of rates of return, I want you to give some thought to this, having in mind the suggestions we have heard from the expert witnesses as to the risk involved in this type of business, and you know we have heard many ?



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A Yes.

Q And having in mind the fact and perhaps, we can agree on it, with no special proof, that we are now in a period of the highest income tax rates in the history of Canada, and I want you to consider this, I suggest to you that perhaps the solution of this question of risk and rates of return is bound up in the provision of an annual sum for amortization in excess of the amount which might be allowed based on either the life of the field or the life of the equipment, with a corresponding quick reduction of the risk and an early elimination of the risk, that in turn should be reflected in a much lower rate of interest and that it would be proper and possible to correlate those two figures to an annual amount of amortization and a lower rate of interest so that the total amount required in any one year would not vary from the amount which would be necessary for a longer amortization period and a higher rate of interest. I hope I am making myself clear ?

A I agreed with you right up to the last two or three minutes.

Q That is towards the end of it ?

A I would just like the last one hundred words, Mr. Cutler.

Q Let me put it by stages - -

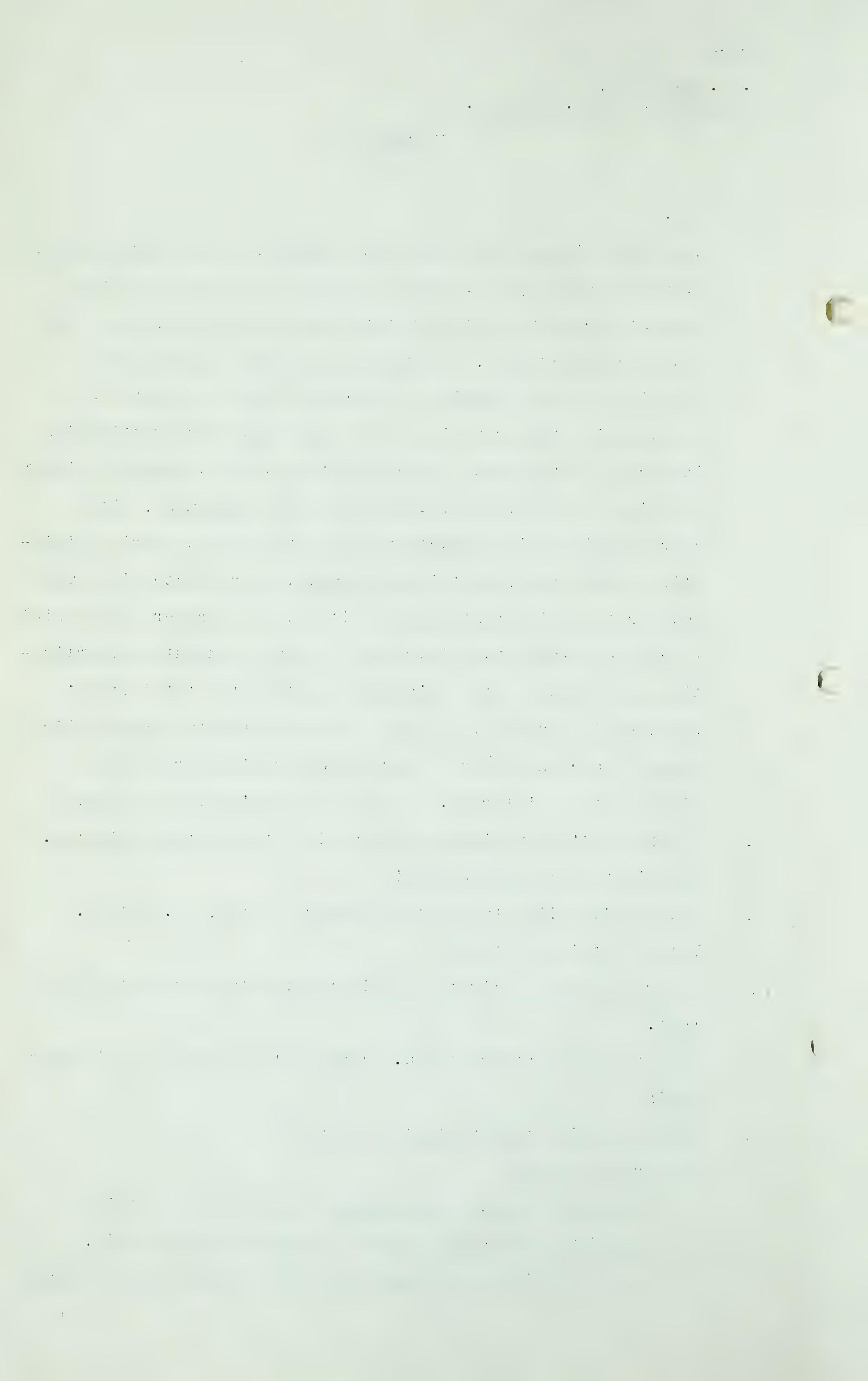
A I agreed with you right up until towards the end of the last part.

Q Do not let me interrupt you. I may not be able to do it over again ?

A Would you mind reading that last part ?

(Reporter reading)

"I suggest to you that perhaps the solution of this question of risk and rates of return is bound up in, the provision of an annual sum for amortization in excess



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of the amount which might be allowed based on either the life of the field or the life of the equipment, with a corresponding quick reduction of the risk and an early elimination of the risk, that in turn should be reflected in a much lower rate of interest and that it would be proper and possible to co-relate those two figures to an annual amount of amortization and a lower rate of interest so that the total amount required in any one year would not vary from the amount which would be necessary for a longer amortization period and a higher rate of interest. I hope I am making myself clear ?"

WITNESS: I agreed with everything down to where Mr. Cutler started to read. If you care to re-phrase the last part of it I might answer it. I agree with the first part but I do not understand what you mean by co-relating those two figures.

Q I suggest to you that you could work out an annual amortization charge higher than the figure which you would arrive at based on either the life of the field or the life of the equipment, depending upon which is longer ?

A Yes.

Q Higher than that ?

A Yes.

Q And you could work out a corresponding reduction in the rate of return because of the lessening of the risk ?

A That involves judgment there.

Q Which will result in requiring the same sum of money in any one year, that is what I am asking ?

A I agree with you in principle, but the practical application of it involves the application of judgment.

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Q Yes, but you agree with the principle ?

A Yes.

Q And will you agree with this, that by so doing you may effect a very substantial saving of income tax ?

A Yes.

Q And if that income tax is borne by the Company it would be a saving to the Company and if it is borne by the consumer it would be a saving to the consumer ?

A Yes.

Q And I suggest to you that is the ideal way of meeting these complaints about risk ?

A The only objection I see to it of course is to make the present consumer pay something which really should fall to the lot of the future consumer.

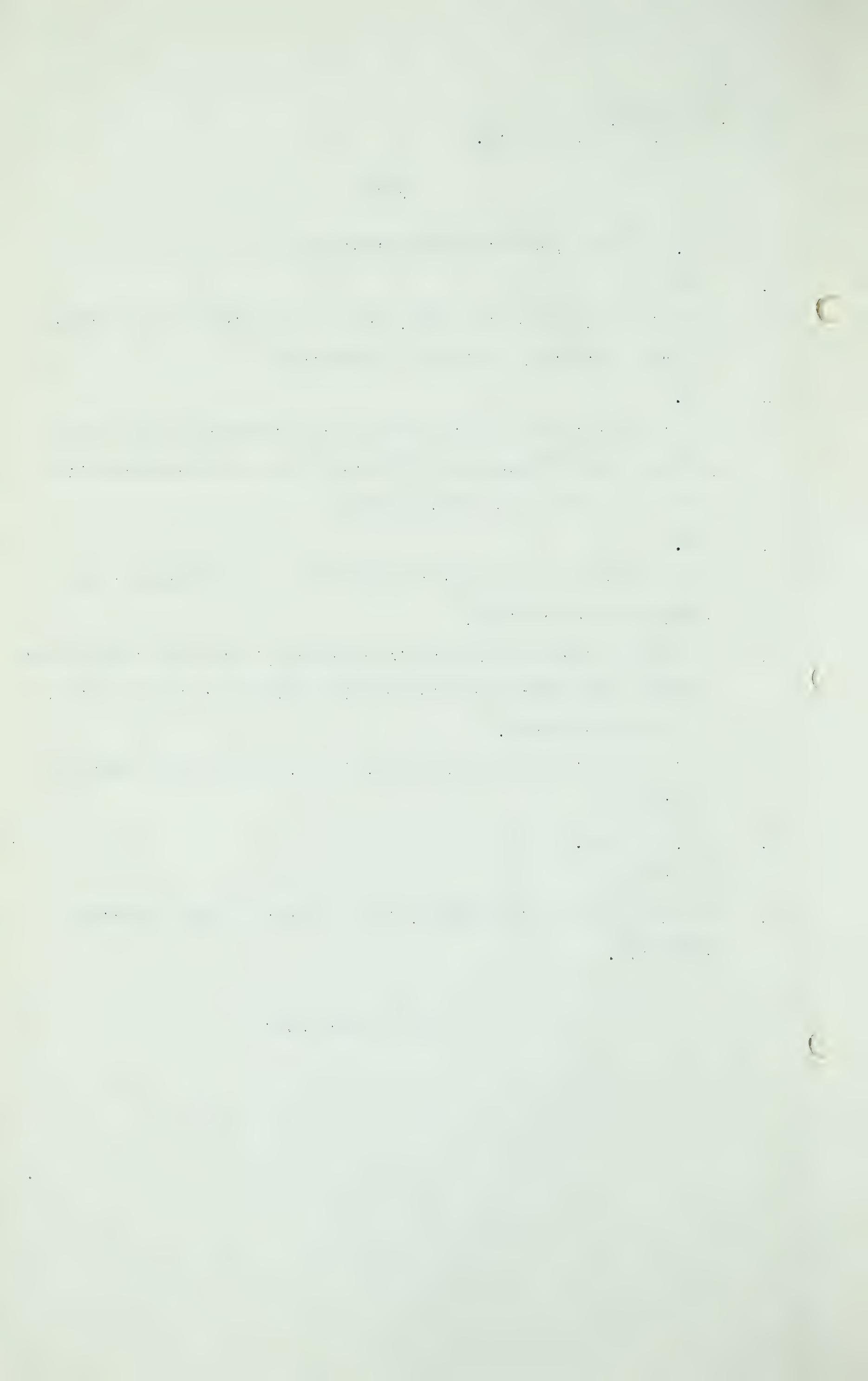
Q He is not going to pay any more, is he, if the same amount is required ?

A Yes, he will.

Q He will ?

A He will pay more in dollars, if I understand your question correctly.

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Q This is a new theory to me about the consumers. That is the first time I have heard it. How does it make them....

THE CHAIRMAN: You increase your depreciation and reduce your rate of return. That is what he suggests and by doing that you will save on income tax and thereby give the benefit to the consumer.

A Oh provided that the Minister of Income Tax will allow you.

Q Allow your increased rate of depreciation.

A If consciously done.

Q MR. FENERTY: Nobody seems astute so far to increase payment of income tax to the Dominion. There is no reason why we should pay now if we can get away legitimately with a substantial payment of income tax to the Dominion it has got to save money to someone connected with the gas industry ?

A Yes.

Q That is ultimately ?

A Yes.

Q Do you see any objection to it ?

A No sir.

Q MR. CHAMBERS: Mr. Hamilton, if you do charge up more to depreciation you are going to reduce the rate base. I suggest to you that the shareholder is entitled to take his money out ?

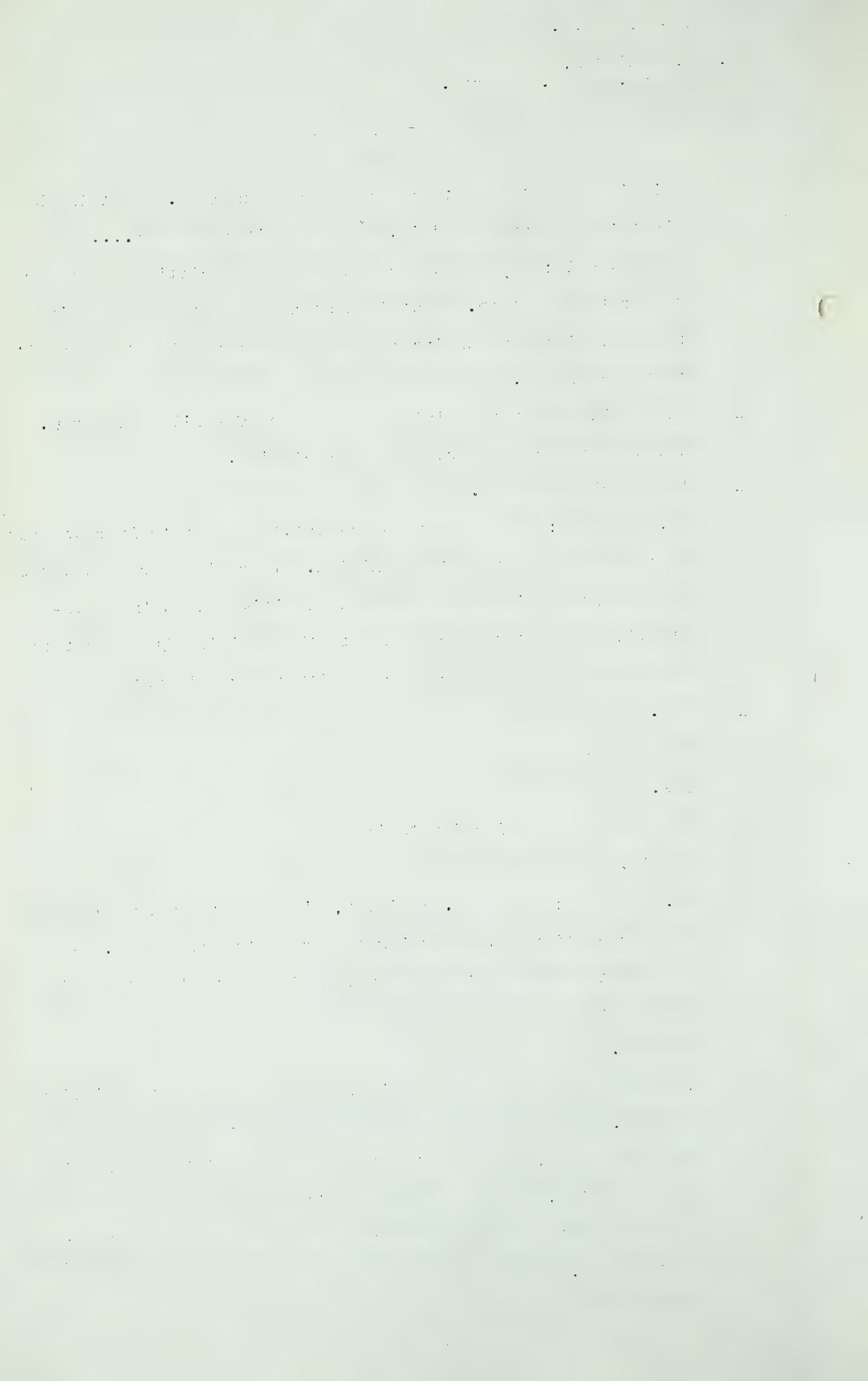
A Yes sir.

Q And he may have say half a million left instead of a million ?

A Yes sir.

Q And is not that half million in the same position as to risk as a dollar risk. It is the same is it not ?

A I say the quicker you reduce the rate base the less risk there is involved.



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Q But you have not so much money out. Is that not the answer?

A I do not know that I follow you. I am sorry.

Q But my learned friend suggested to you that it should decrease the risk of the investment by depreciating rapidly. Is that in effect what he suggests. Is that your understanding of what he suggested to you?

A What I agreed to was, if he could decrease the income tax in some fashion and I agreed with him and that is as far as I have gone.

Q He is referring to the rate of return and he wanted to get the risk out of this business so he could get a lower rate of return?

A I went so far to say and this may help us, that whatever the extent they accelerate the rate of amortization on investment you thereby reduce the rate of risk.

Q Why?

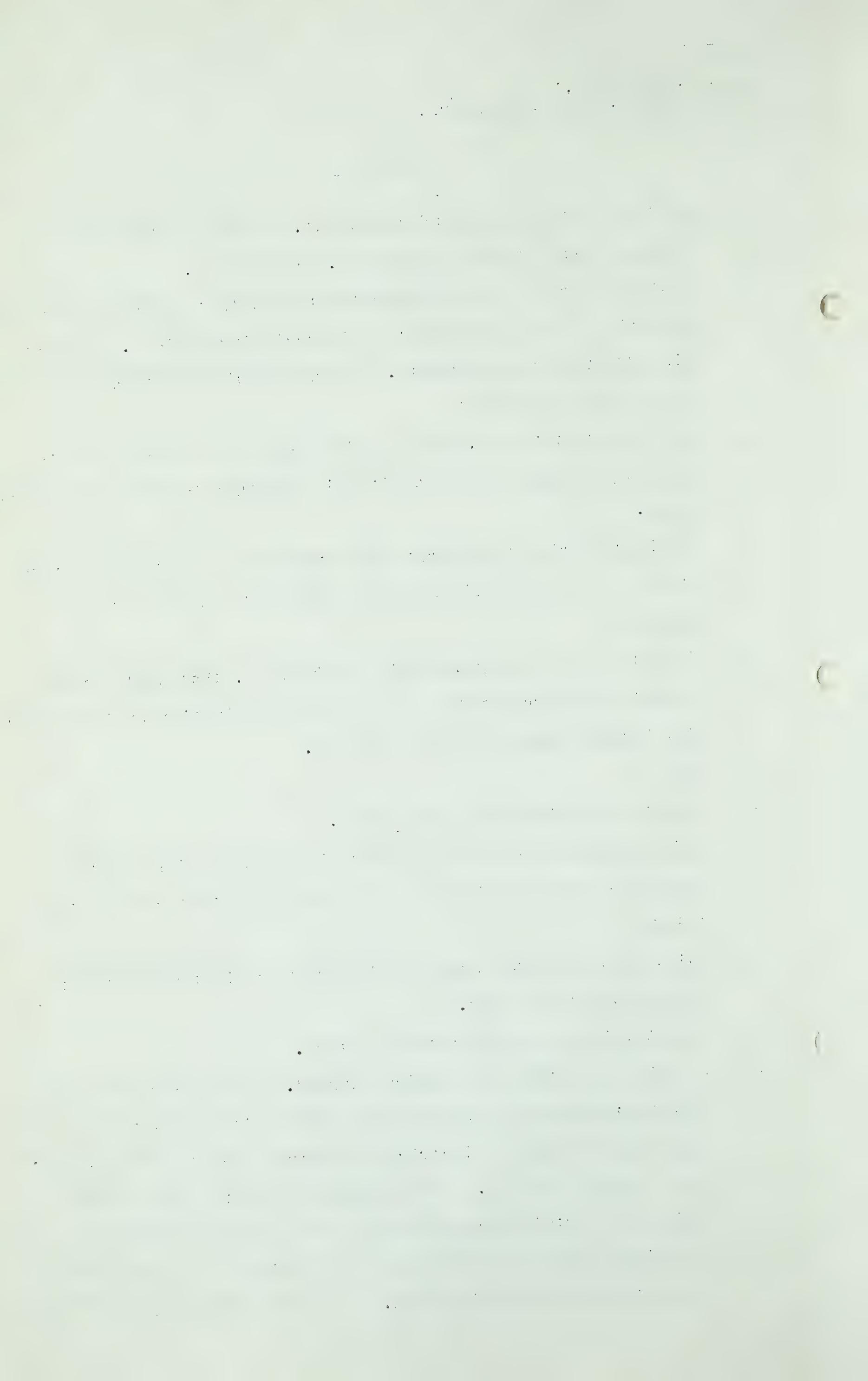
A Because the money goes out faster.

Q But the money you have left there is still on risk and the money you have left there is the only money that carries the return?

A But if you get your money out in ten years instead of twenty years you cut the risk.

Q I am talking about the rate of return.

A You actually reduce the physical hazard. Take for example the difference between this type of industry with a declining rate base and that of the electrical industry which is more or less of a stable rate base. Both industries are to some extent subject to certain technological risks and we may come to a condition when no one uses gas or electricity any more but we do something totally different. If that happens fifty years



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from now it makes no difference to Madison. It will be out of the picture. It will make a difference however to the electric utilities because it still has a rate base of say one hundred thousand. The electrical business with a stable rate base can never totally escape that risk of obsolescence. Whereas all Madison has to do is to avoid the impingement of that risk for the length of time it is in the picture and every year that passes reduces the risk because surely the thing that is going to make it wholly obsolescent is coming over the horizon so that we can recognize its advent.

Q But you may not have so many dollars there. You may only have say \$5,000.00. It is still a risk whether you are ever going to get it ?

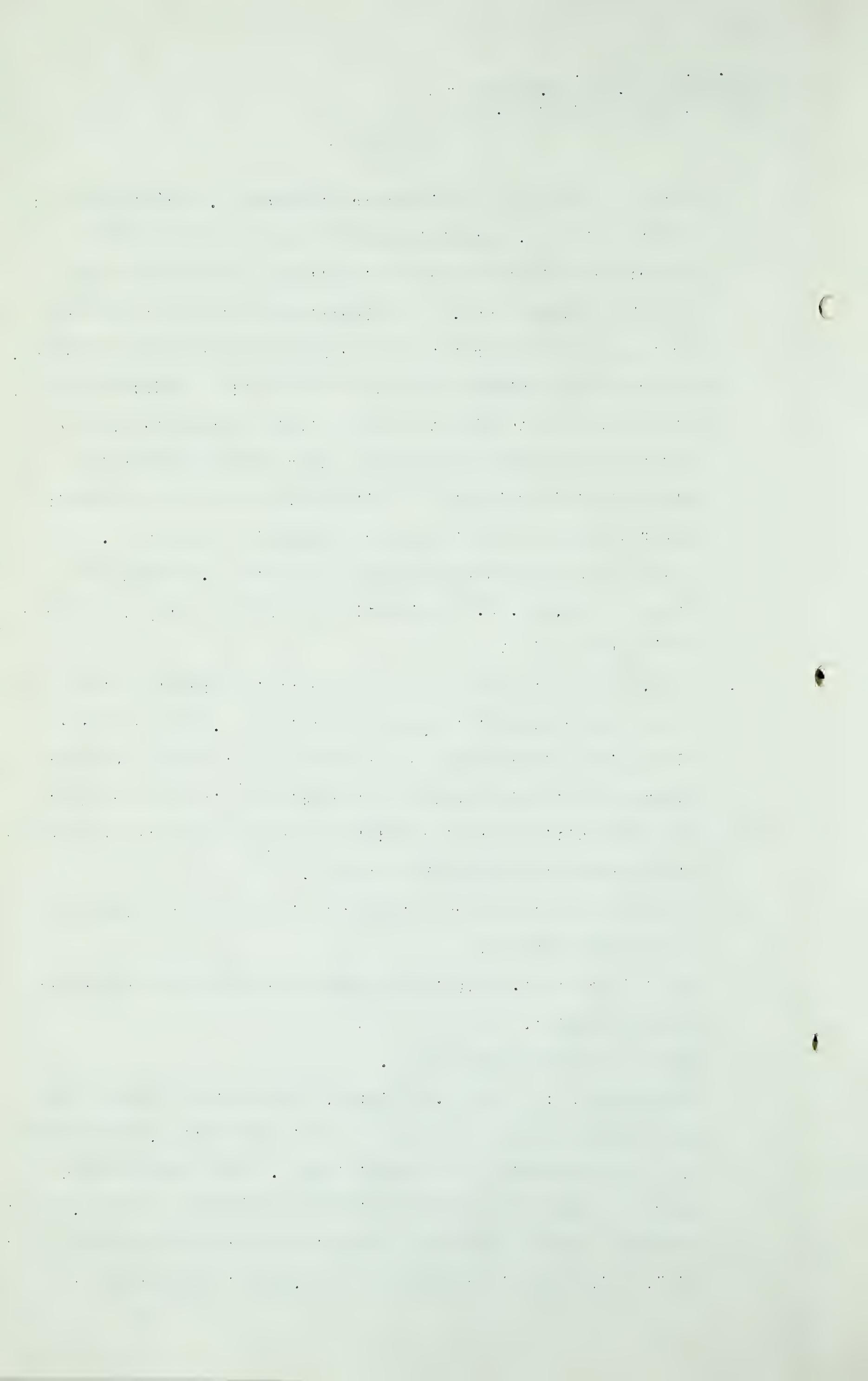
A Yes, but the reason you pay me a certain percentage in 1944 is because I could not take money out in 1944. I have got to leave it until 1968 so you are paying me in 1944 for leaving my money not only for 1944 but committing it to stay at risk for an additional period and that additional period I leave it there makes the risk I have to run.

Q But the shareholder can still get his money out and somebody else has the risk ?

A That is correct. But in a declining rate base that situation does not exist.

Q I guess I cannot follow you.

THE CHAIRMAN: Mr. Hamilton, at the risk of being tedious and tiresome and being guilty of vain repetition, I want to ask you a few questions about Exhibit 146. If the Board should decide to adopt the reproduction costs new theory of Mr. Hill's, then the assets we have been talking about today in Groups "A", "B", "C", and "D" are already in Mr. Hill's valuation at



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\$172,383.06 ?

A Yes sir.

MR. BLANCHARD: Are the assets in Mr. Hill's valuation ?

A Oh no, I am sorry, sir, not in "C".

Q THE CHAIRMAN: All right. The question will be amended this way, if the Board accepts your figures of today and if it accepts Mr. Hill's theory, then there should be added to Mr. Hill's figures the sum of \$52,958.55 ?

A Well the \$52,958.55 is not in Mr. Hill's gross valuation.

Q All right.

A The other three items are.

Q That is sufficient. Then on the other hand if I should decide to adopt one or other of the bases which you suggested for a rate base, the figure of \$7,434.08 is included in the various bases suggested by you ?

A Yes sir.

Q Now I assume that the information contained in Exhibit 146 were given to you by Madison Gas Company and all you have done is to check it ?

A That is correct, sir.

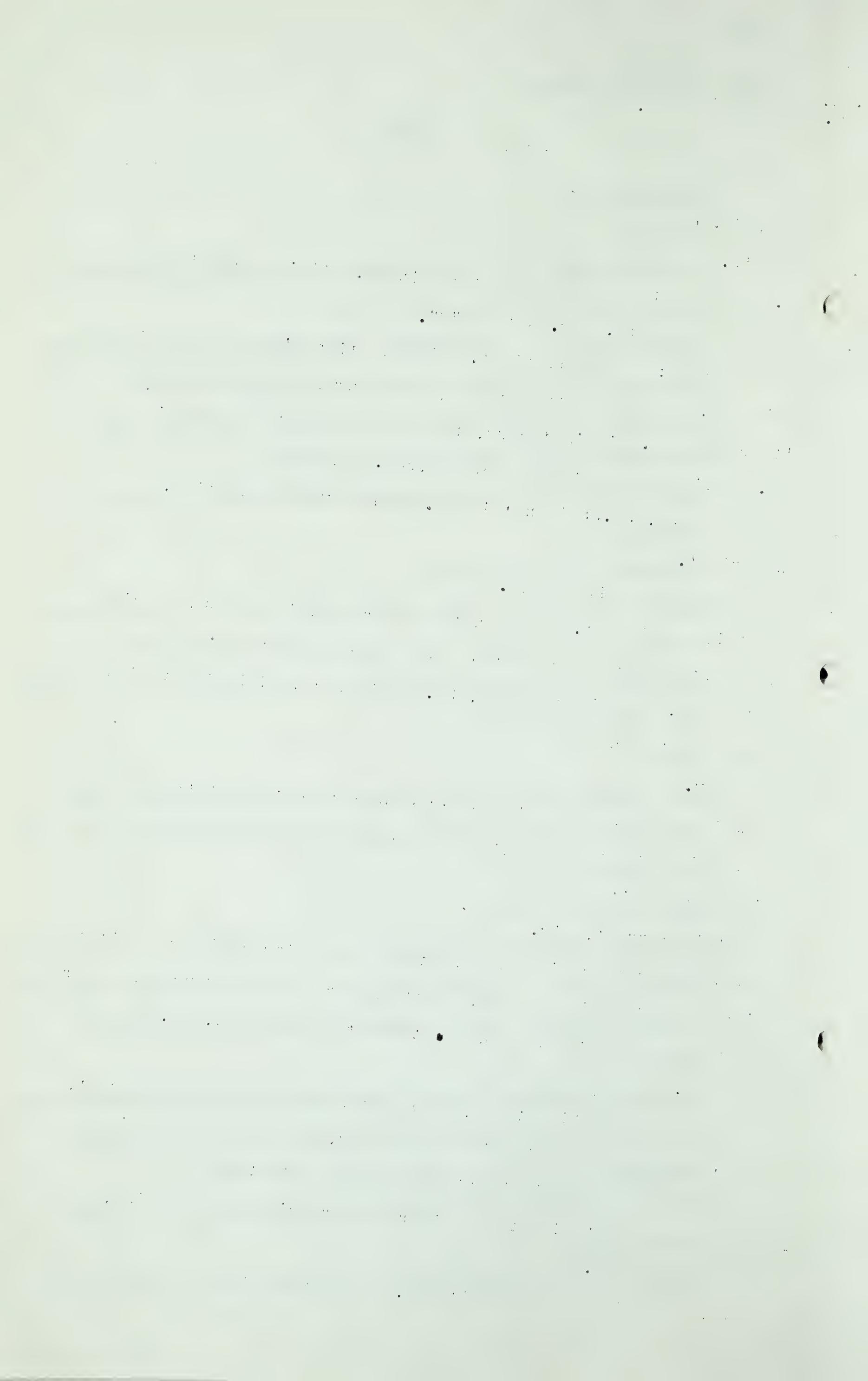
Q Would I be correct in assuming that your evidence is an invitation to me that if I should adopt one or other of your bases for a rate base that I should add to that figure \$164,948.18 ?

A No sir.

Q Is it an invitation to me, I know you are not recommending it, no, you are merely telling me a story, would I be right in assuming it is an invitation to me to do that ?

A It is an invitation to consider the propriety of so doing, that is right.

Q Now you said or agreed with Mr. Chambers that the Board was



entitled to found its judgment on all the facts ?

A Yes sir.

Q When you were preparing, or rather when you were examining
the Company's
the Madison Gas/books leading to the formulation of your sub-
missions you came across these items ?

A Yes sir. Not all of them, but most of them.

Q And you came across other items ?

A Yes sir.

Q And those various items were in doubt ?

A Yes sir.

Q And some of the doubts could be resolved in favour of the
Company and some of the doubts could be resolved in favour
of the public ?

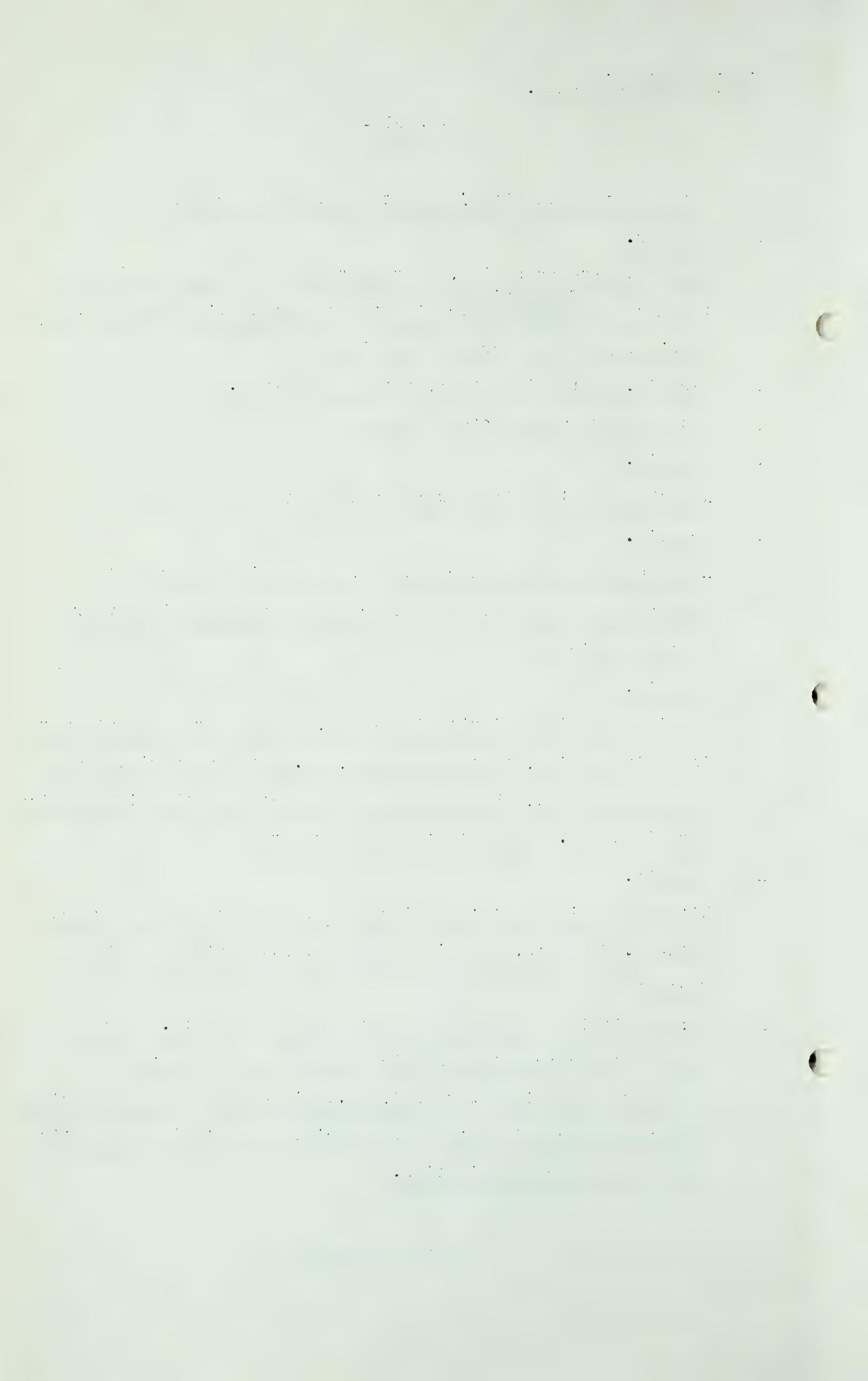
A Yes sir.

Q Now if there is an invitation to me, assume for a moment there
is an invitation, that I add \$164,948.18 to the various bases
suggested by you, why should not I deduct the other items which
were in doubt. Would that not be proper ?

A Yes sir.

Q Without knowing what these items are, can I do as you agreed
with Mr. Chambers, that is to base my judgment on all the
facts ?

A Perhaps it is a question of what we mean by facts. A good
deal of the circumstances which would now and did then impel
me to my conclusion why \$164,948.18 is offset by other factors
involves the consideration of principles and their application
which defy exact application.



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Q. And so you had what we used to call in political days, you had a saw-off?

A. Correct, sir.

Q. And now I am being invited to restore one part of the saw without having the off of the other part?

A. That is right.

Q. And that many of these items, Mr. Hamilton, if charged to expense, have, in effect, been recovered by the company, although presumably at the expense of profits?

A. Yes sir.

Q. And if I restore them now I am augmenting in this year profits which accrued to the Royalite many years ago perhaps?

A. Yes sir.

Q. I suppose you cannot give me any information as to whether or not all of these items in Exhibit 146 are used and useful, outside of the one which you have told me is neither used nor useful?

A. I have no personal knowledge of that.

Q. Anything further from Mr. Hamilton?

MR. CHAMBERS: I would like to ask.....

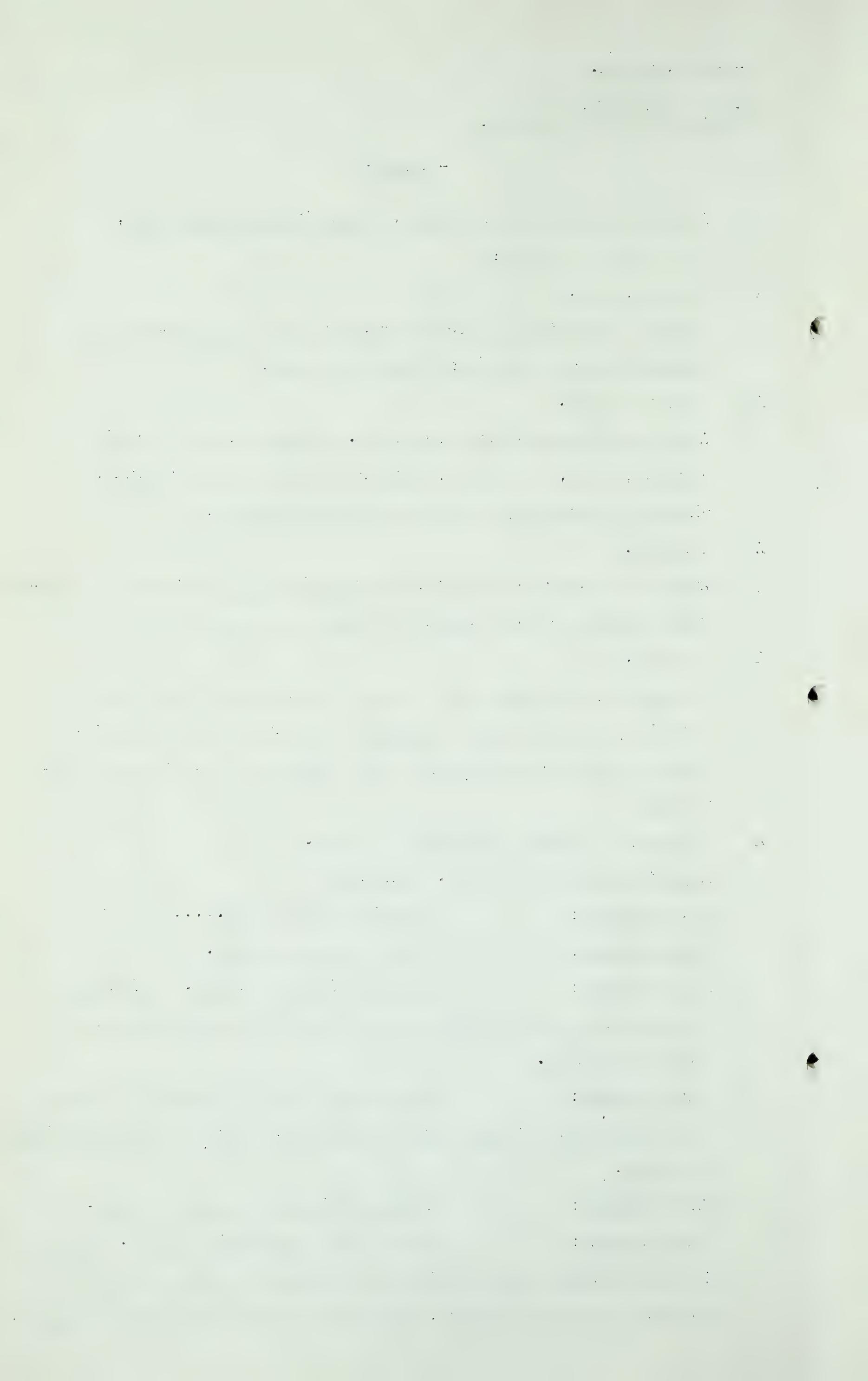
THE CHAIRMAN: I was afraid of that.

MR. CHAMBERS: I would like to ask Mr. Hamilton to get those other items because I have not been able to connect them up.

THE CHAIRMAN: I think they are all tied up with the other contract that you are speaking of, which you were speaking of today.

MR. CHAMBERS: I would like to be sure of that.

THE CHAIRMAN: That is the impression I got. There is the question that had it not been for the war and had it not been for the contract, would these items have been incurred?



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That is question 1. And then having been incurred were they actually necessary for the purposes for which we are now considering, and there was a saw-off.

MR. CHAMBERS: That is the point I am coming to. As I understand, Mr. Hamilton, there was, - no criticism whatsoever implied or otherwise, - but there was a discussion as a result of which there was a saw-off between you and Mr. Kirkpatrick, is that right?

A Yes, I believe he spoke for the company at that time.

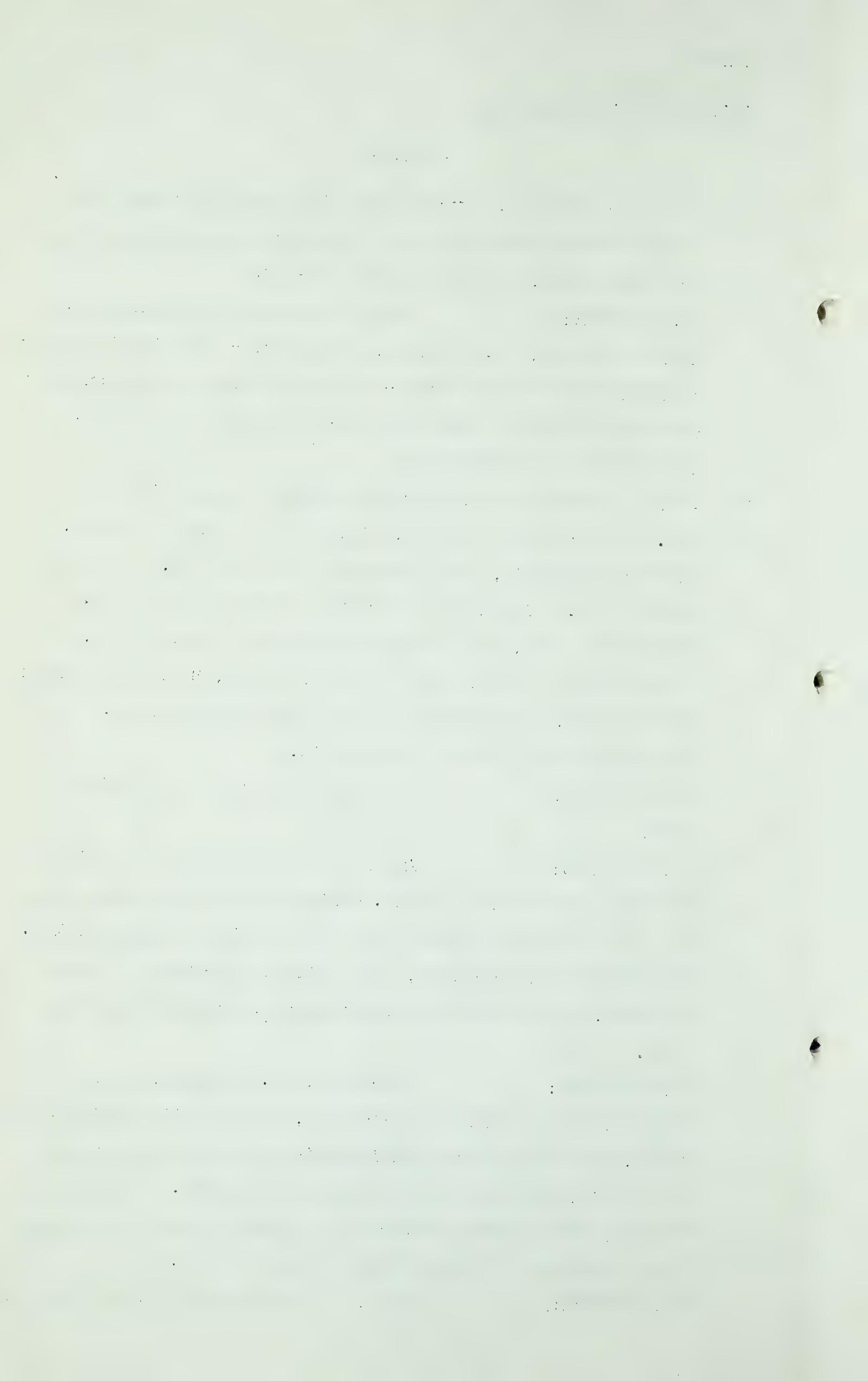
Q Yes. That is just the point, sir, that the company itself, as I understand it, and from what I can find out, was not a party to it. And I am not trying to renoce on what Mr. Kirkpatrick said, and I certainly was not a party to it, and I am sincere in this, that I think that you, Sir, the Chairman of the Board, should know all the facts on both sides. I am trying to get to the bottom of it.

THE CHAIRMAN: I thought that was a suggestion I made.

MR. CHAMBERS: And I am not yet clear in my mind of these other items that Mr. Hamilton says that outweigh on the other side the matters that are contained in Exhibit 146. We talked in generalities, and he listed an item of eight thousand, nine thousand or ten thousand, or something like that.

THE CHAIRMAN: Of course, Mr. Chambers, quite frankly, I have this in my mind too, that Royalite offsets these items, and it was given consideration and there was prepared an exhibit, and they had Mr. Hamilton check it. I wondered also why they did not prepare an inventory of the other items which obviously had been offset against these.

MR. CHAMBERS: Well, as I understand it, and I might



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be quite wrong in this, but this is my impression, that there were certain adjustments, and that there are not necessarily specific items you can put your finger on.

THE WITNESS: That is correct, sir. The fact is that we were doing it, for example, we will take the one dollar item for simplicity, if you will permit it, that was largely implied and not expressed.

MR. CHAMBERS: That is the point I want to get at. There are certain things you cannot put down in a statement.

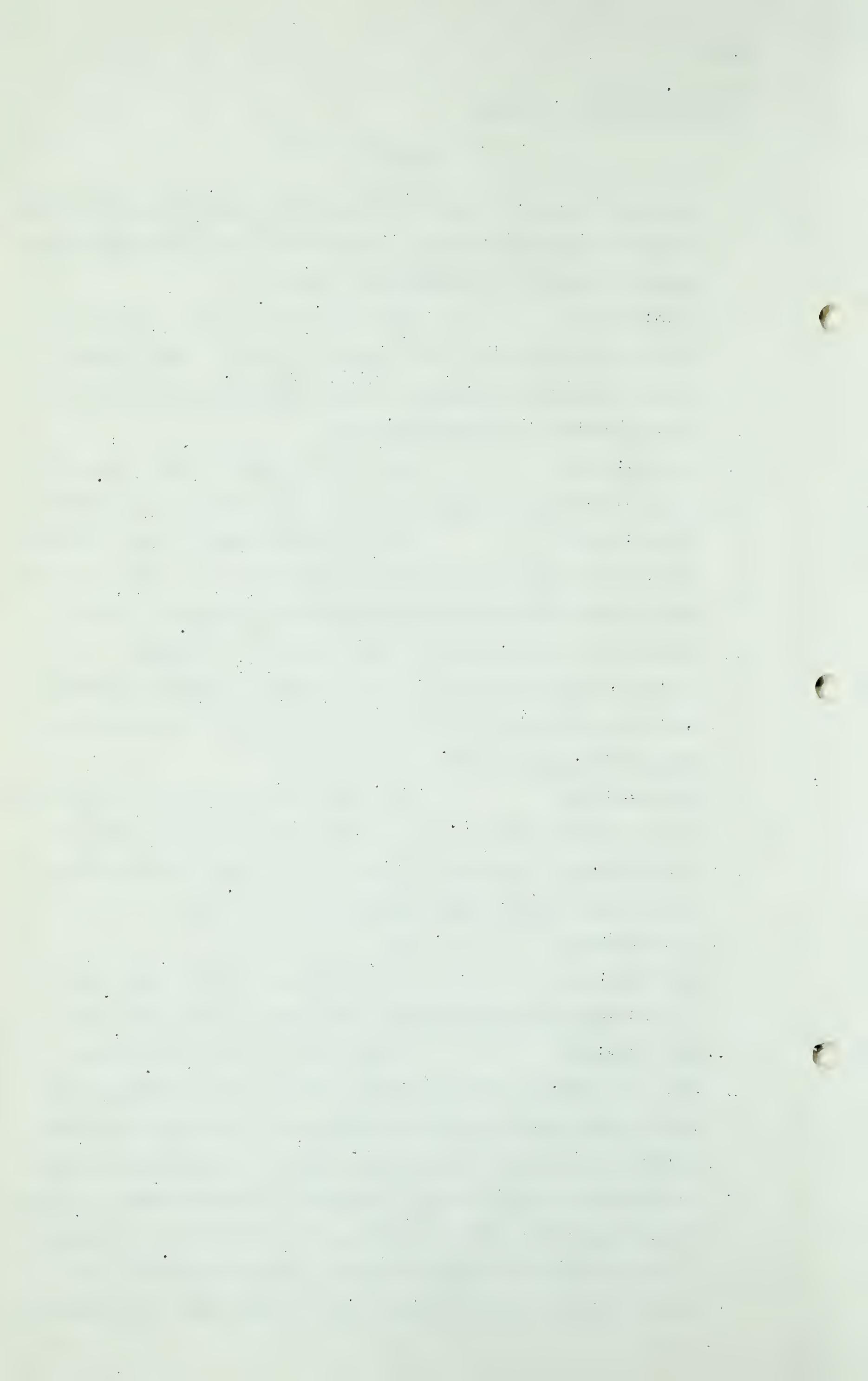
THE WITNESS: If they substantially counter-balance the other, and I was relieved to find that in the view of the company officials they substantially counter-balanced, any of the other costs, it was a matter of judgment. If that were so, and I thought that that was roughly equivalent to it, we just took it, and we were still in the reasonable margin of error, we took it.

THE CHAIRMAN: Then, Mr. Chambers, there is another matter arising out of this. I can take Mr. Hill's theory or I can take Mr. Hamilton's theory, but you are asking me to add to this theory some reproduction costs now.

MR. CHAMBERS: No.

THE CHAIRMAN: I have Hill on the one hand, and I have a combination of Hamilton and Hill on the other hand.

MR. CHAMBERS: I would like to make that clear, Sir. I think Mr. Hamilton dealt with it this morning, that those items roughly should be discounted in order to get the historical costs to 20% of what Mr. Hill's 1943 figures were, in order to get the average original historical cost, I am not suggesting that you take Hill's and add it on to the other. I suggest that if historical cost is being adopted, you should get the whole picture. Now, those items you cannot



get. Mr. Hamilton suggests that you discount it by 20% and that probably would represent the actual historical cost and add your 9% return to it.

THE CHAIRMAN: Anything further from Mr. Hamilton, gentlemen? Thank you very much, Mr. Hamilton.

MR. HAMILTON: Thank you, Sir.

THE CHAIRMAN: Anything further, Mr. Chambers?

MR. CHAMBERS: No sir.

THE CHAIRMAN: Then shall we resume on the 18th? And if we do, what shall we resume with?

MR. FENERTY: Well I don't know. I know Mr. Davies' evidence will last a short while. I think he is available now, but there is not much use of starting him now.

THE CHAIRMAN: You are calling Mr. Stanley Davies?

MR. FENERTY: In connection with the coal price computation that he has made.

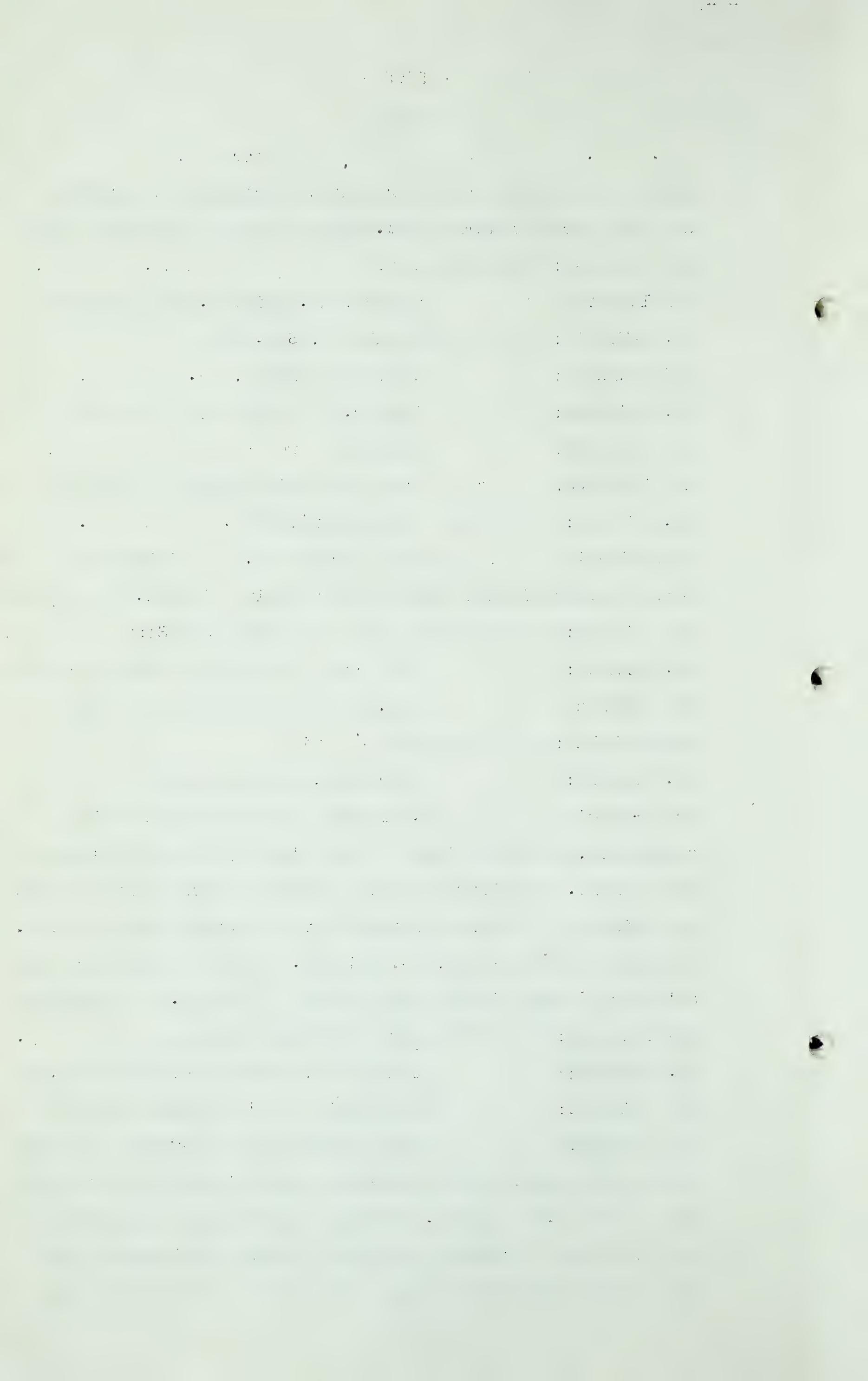
THE CHAIRMAN: How long will that take?

MR. FENERTY: Of course, I do not know what the cross-examination will be. I have already given my friends statements, and they will not be losing any time because of the adjournment. I think it would be more satisfactory to start with him on one day rather than leave a fourteen day interval. Whatever you wish to do, Mr. Chairman. If you want to continue past four o'clock, it is quite all right with me.

THE CHAIRMAN: I will do whatever you gentlemen say.

MR. FENERTY: I am ready, just whatever you say.

MR. CHAMBERS: We probably won't be crowded the week of the 18th, and I would personally just as lief start on the week of the 18th. I was wondering what evidence there would be to be used. Will Mr. Hamilton be back that week in the light of the discussion we have had today? We will have all



read this contract by that time.

THE CHAIRMAN: I am going to be in Calgary anyway.

Dr. Katz is going to be here that week, and I will be here anyway on the 18th, 19th and 20th of February.

MR. HARVIE: I think we will all be having considerable time with Dr. Katz when he is here outside of the Commission, when he is on his visit here. Is he liable to be called again before he leaves?

THE CHAIRMAN: I don't think so. He is going to act as a technical adviser, that is all.

MR. HARVIE: I understood, Mr. Chairman, that you suggested that if his evidence did not support that given by Royalite, at least, on the new reserves, he might be called.

THE CHAIRMAN: That is on the pipe line case.

MR. HARVIE: Yes.

THE CHAIRMAN: Yes, of course that is quite right, Mr. Harvie. If he agrees substantially with Mr. Connell, there will be nothing further.

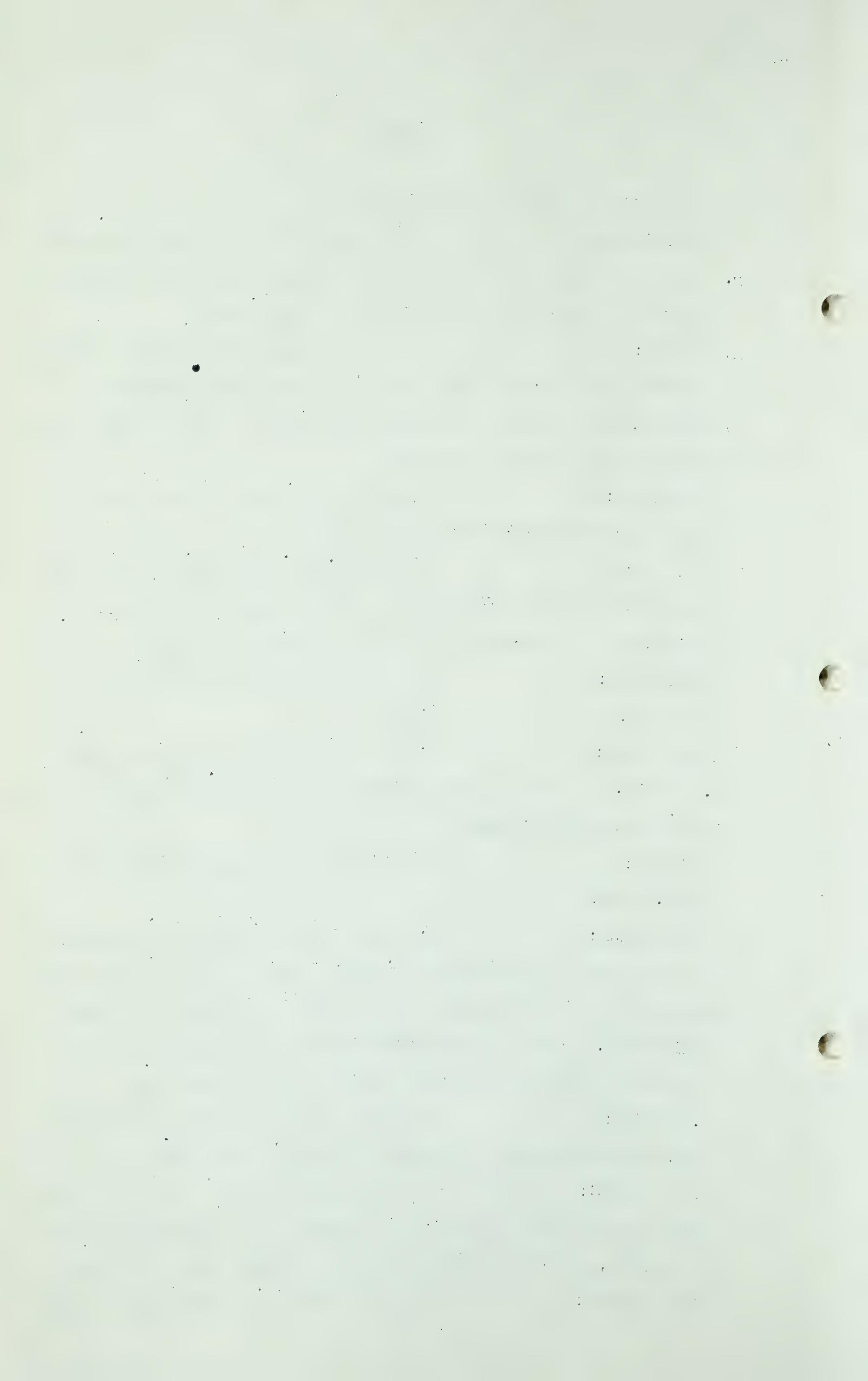
MR. HARVIE: There will be nothing further then for Dr. Katz?

THE CHAIRMAN: But if he disagrees with Mr. Connell to the extent of 20 million barrels, then, of course, he will have to be called to give his evidence and submit to cross-examination, but I had in mind getting some advice from him on some matters like the market sharing position.

MR. HARVIE: I think we would all appreciate any assistance we could get on those matters, from him.

MR. CHAMBERS: With deference to you, Sir, if he is going to give any evidence, or rather if he is going to give any advice, he should give it in the witness box, I think.

THE CHAIRMAN: I don't think so. The Supreme Court



of Canada has said, broadly speaking, that I can go down to the street corner and talk to anyone I meet there, and get any information I like, and I can use the information that I receive from the person on the street corner that I like.

MR. CHAMBERS: With due deference, I think you cannot go that far.

MR. HARVIE: With deference, Mr. Chairman, I do not think you should do that, he should be put in the box.

THE CHAIRMAN: What I can do and what I will do, are two different things.

MR. CHAMBERS: I am serious about this. I think we should try to make an effort to get all of our evidence in.

THE CHAIRMAN: Mr. Chambers, I won't do anything drastic.

MR. CHAMBERS: No, but I am suggesting that we should try to get our evidence in on this thing as soon as possible.

THE CHAIRMAN: I will be here. I will leave that to you. If you have the evidence ready I will be here to listen to it.

MR. CHAMBERS: Will Mr. Hamilton be here?

MR. BLANCHARD: That is, whether he is required or not?

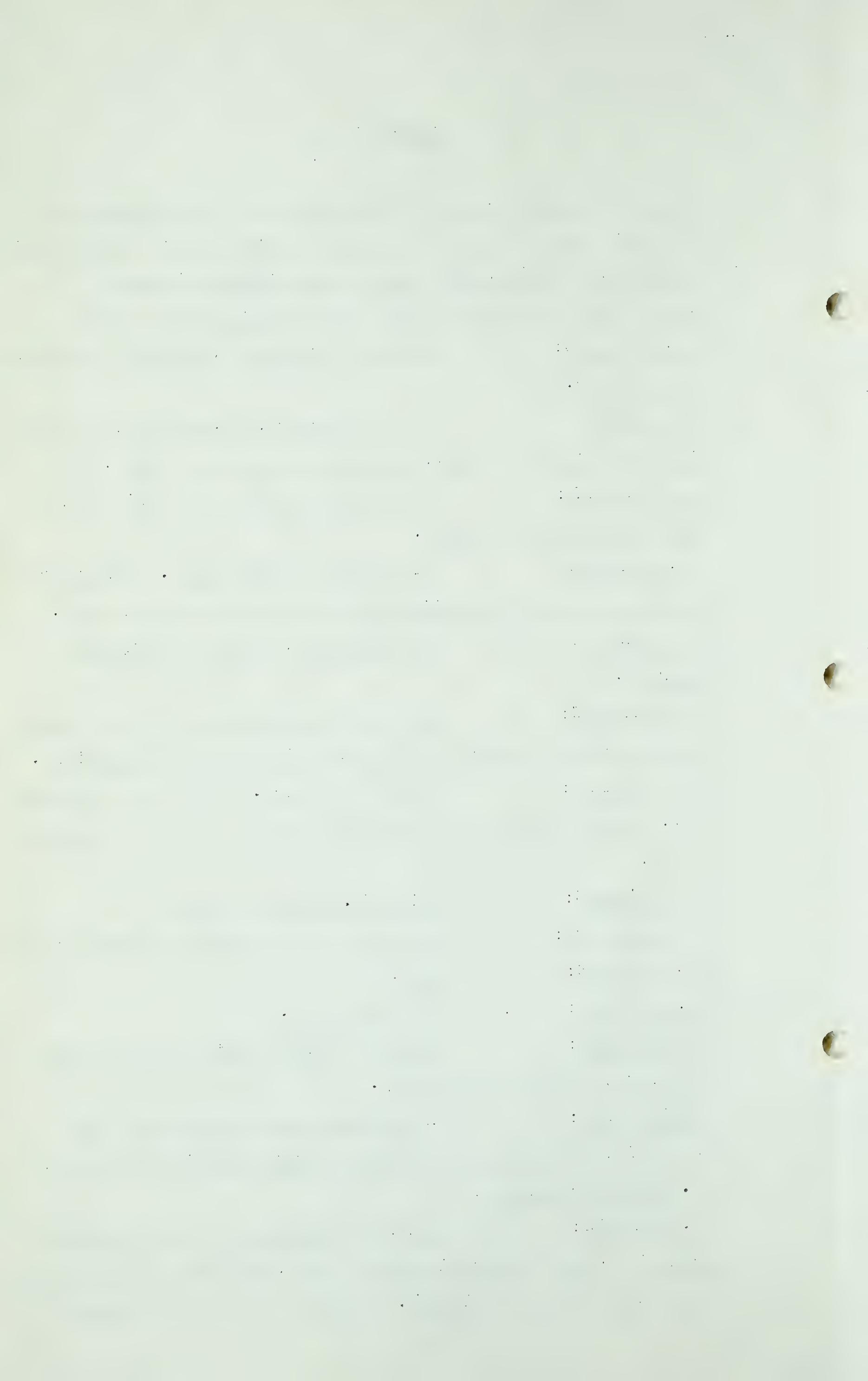
MR. CHAMBERS: Yes?

MR. BLANCHARD: I do not know.

MR. CHAMBERS: To give evidence with regard to the information that he gave today.

MR. BLANCHARD: I presumed before he went into the box again, that you would be calling some Royalite officials, Mr. Mercer or someone.

MR. CHAMBERS: Well, the statement is being prepared primarily on the absorption plant phase, and that statement has taken longer than we figured. We have had as high as seven



and eight people working on it, but it has taken time because we have gone back to previous years. Now, I believe, that that will be ready for Mr. Hamilton to go into next week. I will check that this afternoon.

MR. BLANCHARD: I think possibly, Sir, we could get together, that is counsel might get together in the interval and try to arrange our Agenda.

THE CHAIRMAN: Yes, do that.

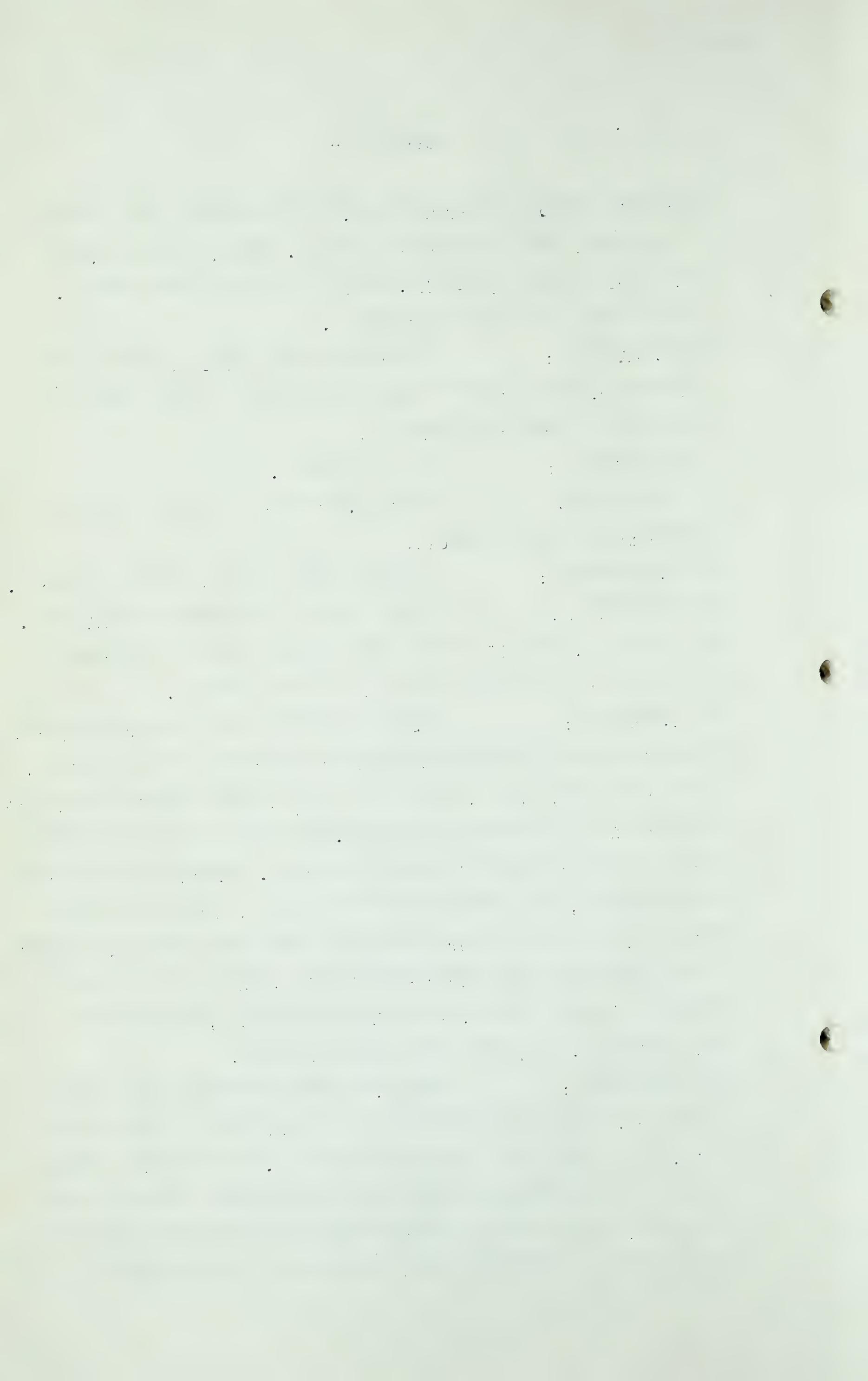
MR. CHAMBERS: If Mr. Blanchard will make himself Chairman for that purpose.

MR. BLANCHARD: I will be glad to do the best I can.

THE CHAIRMAN: I have another Commission coming on. All right, we will do that, leave it for Counsel to arrange between each other what you will do on the 18th.

MR. FENERTY: So that the Board and Counsel may give consideration as to how the witnesses are going to be called, as far as I know now, I think the only further evidence we will be calling is the evidence of Mr. Davies with reference to coal and his explanation with regard to that. Assuming he is called, we will say, on the beginning of the 18th, I would not expect his evidence to go over an hour or an hour and a half, depending on the length of the cross-examination. As far as the direct evidence is concerned, it will be very brief, a few minutes, that is all. I just give that information.

THE CHAIRMAN: Well, the whole point is that I will be here. If you have work for me to do, I will be here to do it. If you have not, it is unfortunate. But one thing I want to do is to let the Court Reporters know because they have to bring Mr. Howard down from Lethbridge, and they would want to know in time so that they will know whether he is going to



be needed or not.

We will adjourn to the 18th at 9.30 o'clock in the morning.

(At this stage the Hearing was adjourned to February 18th, 1946, at 9.30 A.M.)

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